COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2010

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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, 2010, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated May 1, 2012. Our report includes a reference to other auditors and was qualified due to our inability to determine the propriety of the Public School System due from primary government. 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 Commonwealth Utilities Corporation, 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. Other auditors issued separate reports on their considerations of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Commonwealth Utilities Corporation, 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. The findings, if any, included in those reports are not included herein.

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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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 18 through 115), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-01, 2010-02, 2010-05, 2010-10 through 2010-13 and 2010-15 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-03, 2010-04, 2010-06 through 2010-09 and 2010-14 to be significant deficiencies.

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 2010-16, 2010-51 through 2010-53.

We noted certain matters that we reported to management of the CNMI in a separate letter dated May 1, 2012.

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 the responses.

This report is intended solely for the information and use of management of the CNMI, others within the entity, 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

May 1, 2012

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Commonwealth of the Northern Mariana Islands' (CNMI) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the CNMI's major federal programs for the year ended September 30, 2010. The CNMI's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 18 through 115). 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, 2010. 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.

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As described in items 2010-17 through 2010-53 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 and procurement and suspension and debarment that are applicable to its Supplemental Nutrition Assistance Program (CFDA # 10.551) major program; allowable costs/cost principles, eligibility, equipment and real property management and procurement and suspension and debarment that are applicable to its Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA # 10.557) major program; allowable costs/cost principles, cash management, procurement and suspension and debarment and reporting that are applicable to its 2010 Census (CFDA # 11.YA132309CN0062) major program; allowable costs/cost principles, cash management, equipment and real property management, matching, level of effort, earmarking, period of availability of federal funds, procurement and suspension and debarment, subrecipient monitoring and special tests and provisions that are applicable to its Economic, Social, and Political Development of the Territories (CFDA # 15.875) major program; allowable costs/cost principles, equipment and real property management, procurement and suspension and debarment, program income and special tests and provisions that are applicable to its Highway Planning and Construction (CFDA # 20.205) major program; allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment and reporting that are applicable to its State Energy Program (CFDA # 81.041) major program; activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment and subrecipient monitoring that are applicable to its State Fiscal Stabilization Fund Cluster (CFDA #s 84.394 and 84.397) major program; and allowable costs/cost principles, cash management, eligibility, procurement and suspension and debarment and reporting that are applicable to its Medical Assistance Program (CFDA # 93.778) major program. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. 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 2010-51 through 2010-53.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-31, 2010-36, 2010-37, 2010-40, 2010-42, 2010-43 and 2010-45 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-17 through 2010-30, 2010-32 through 2010-35, 2010-38, 2010-39, 2010-41, 2010-44, 2010-46 through 2010-50 to be significant deficiencies.

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, 2010, which collectively comprise the CNMI's basic financial statements and have issued our report thereon dated May 1, 2012, which report was modified to include a reference to other auditors and was qualified due to our inability to determine the propriety of the Public School System due from primary government.

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the CNMI's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 14) 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.

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 the responses.

This report is intended solely for the information and use of management of the CNMI, others within the entity, 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

May 1, 2012

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor
Federal Grants Fund
Year Ended September 30, 2010

Federal Agency	Expenditures
U.S. Department of Agriculture	$ 16,511,317
U.S. Department of Commerce	7,381,435
Institute of Museum and Library Services	152,733
U.S. Department of Education	17,349,931
U.S. Department of Energy	4,407,871
U.S. Department of Defense	68,363
U.S. Environmental Protection Agency	2,125,029
U.S. Department of Homeland Security	4,269,731
U.S. Department of Health and Human Services	19,218,560
U.S. Department of the Interior	6,021,047
U.S. Department of Justice	2,783,307
U.S. Department of Labor	2,245,686
U.S. National Endowment for the Arts	7,186
U.S. Department of Transportation	2,292,466
Unallocated cash receipts/expenditures	(68,401)
GRAND TOTAL	$ 84,766,261

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

Reconciliation:	
Expenditures per above	$ 84,766,261
Local match	8,227,574
	$ 92,993,835
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	$ 87,584,273
Operating Transfers Out	1,808,152
Advance Payments Made to Contractors	3,601,410
	$ 92,993,835

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, 2010

CFDA #	Federal Agency/Program	Expenditures
	U.S. DEPARTMENT OF AGRICULTURE	
10.170	Specialty Crop Block Grant Program - Farm Bill	$ 45,896
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	60,646
10.551	Supplemental Nutrition Assistance Program	11,642,757
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	4,443,491
10.664	Cooperative Forestry Assistance	314,517
10.914	Wildlife Habitat Incentive Program	1,922
10.950	Agricultural Statistics Reports	2,088
	TOTAL U.S. DEPARTMENT OF AGRICULTURE	16,511,317
	U.S. DEPARTMENT OF COMMERCE	
11.Unknown	USDOC Unknown	13,753
11.YA132309CN0062	2010 Census	4,583,539
11.300	Investments for Public Works and Economic Development Facilities	350,300
11.419	Coastal Zone Management Administration Awards	1,095,852
11.426	Financial Assistance for National Centers for Coastal Ocean Science	81,420
11.437	Pacific Fisheries Data Program	284,038
11.454	Unallied Management Projects	42,813
11.463	Habitat Conservation	26,191
11.463	ARRA - Habitat Conservation	155,478
11.467	Meteorologic and Hydrologic Modernization Development	46,370
11.472	Unallied Science Program	30,177
11.555	Public Safety Interoperable Communications Grant Program	671,504
	TOTAL U.S. DEPARTMENT OF COMMERCE	7,381,435
	U.S. DEPARTMENT OF DEFENSE	
12.113	State Memorandum of Agreement for the Reimbursement of Technical Services	5,073
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	63,290
	TOTAL U.S. DEPARTMENT OF DEFENSE	68,363
	U.S. DEPARTMENT OF THE INTERIOR	
15.605	Sport Fish Restoration	952,372
15.608	Fish and Wildlife Management Assistance	282,281
15.611	Wildlife Restoration	338,074
15.615	Cooperative Endangered Species Conservation Fund	312,253
15.634	State Wildlife Grants	140,138
15.875	Economic, Social, and Political Development of the Territories:	
	Development of TTPI Islands	1,559,377
	Compact Impact	1,930,443
15.875	ARRA - Economic, Social, and Political Development of the Territories	38,162
15.904	Historic Preservation Fund Grants-In Aid	467,947
	TOTAL U.S. DEPARTMENT OF THE INTERIOR	6,021,047
	U.S. DEPARTMENT OF JUSTICE	
16.523	Juvenile Accountability Block Grants	76,524
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	83,323
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	3,646

See accompanying notes to schedule of expenditures of federal awards.

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund, Continued
Year Ended September 30, 2010

CFDA #	Federal Agency/Program	Expenditures
	U.S. DEPARTMENT OF JUSTICE, CONTINUED	
16.548	Title V - Delinquency Prevention Program	12,537
16.575	Crime Victim Assistance	214,955
16.579	Edward Byrne Memorial Formula Grant Program	(5,795)
16.582	Crime Victim Assistance/Discretionary Grants	106,999
16.588	Violence Against Women Formula Grants	695,921
16.609	Community Prosecution and Project Safe Neighborhoods	(1,360)
16.710	ARRA- Public Safety Partnership and Community Policing Grants	78,310
16.727	Enforcing Underage Drinking Laws Program	249,125
16.738	Edward Byrne Memorial Justice Assistance Grant Program	535,072
16.801	ARRA - Recovery Act - State Victim Assistance Formula Grant Program	79,228
16.803	ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	654,822
	TOTAL U.S. DEPARTMENT OF JUSTICE	2,783,307
	U.S. DEPARTMENT OF LABOR	
17.235	Senior Community Service Employment Program	461,158
17.258	WIA Adult Program	476,482
17.258	ARRA - WIA Adult Program	189,644
17.259	WIA Youth Activities	447,447
17.259	ARRA - WIA Youth Activities	90,550
17.260	WIA Dislocated Workers	256,000
17.260	ARRA - WIA Dislocated Workers	156,810
17.504	Consultation Agreements	167,595
	TOTAL U.S. DEPARTMENT OF LABOR	2,245,686
	U.S. DEPARTMENT OF TRANSPORTATION	
20.Unknown	USDOT Unknown	257,682
20.205	Highway Planning and Construction	287,713
20.218	National Motor Carrier Safety	328,819
20.600	State and Community Highway Safety	1,418,252
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION	2,292,466
	U.S. NATIONAL ENDOWMENT FOR THE ARTS	
45.025	Promotion of the Arts - Partnership Agreements	7,186
	INSTITUTE OF MUSEUM AND LIBRARY SERVICES	
45.310	Grants to States	139,572
45.312	National Leadership Grants	13,161
	TOTAL INSTITUTE OF MUSEUM AND LIBRARY SERVICES	152,733
	U.S. ENVIRONMENTAL PROTECTION AGENCY	
66.454	ARRA - Water Quality Management Planning	48,010
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	1,917,568
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	50,784
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	76,989
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	18,106

See accompanying notes to schedule of expenditures of federal awards.

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund, Continued
Year Ended September 30, 2010

CFDA #	Federal Agency/Program	Expenditures
	U.S. ENVIRONMENTAL PROTECTION AGENCY, CONTINUED	
66.805	ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	8,550
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	5,022
	TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY	2,125,029
	U.S. DEPARTMENT OF ENERGY	
81.041	State Energy Program	161,271
81.041	ARRA - State Energy Program	4,078,497
81.042	ARRA - Weatherization Assistance for Low-Income Persons	133,873
81.127	ARRA - Energy Efficient Appliance Rebate Program (EEARP)	18,824
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG)	15,406
	TOTAL U.S. DEPARTMENT OF ENERGY	4,407,871
	U.S. DEPARTMENT OF EDUCATION	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	1,067,408
84.169	Independent Living - State Grants	40,103
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	37,810
84.187	Supported Employment Services for Individuals with Significant Disabilities	55,283
84.224	Assistive Technology	143,286
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	12,418
84.390	ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	19,484
84.394A	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	9,330,830
84.397A	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	6,643,309
	TOTAL U.S. DEPARTMENT OF EDUCATION	17,349,931
	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	
93.041	Special Programs for the Aging Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	5,822
93.042	Special Programs for the Aging Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	12,191
93.043	Special Programs for the Aging Title III, Part D-Disease Prevention and Health Promotion Services	24,894
93.044	Special Programs for the Aging Title III, Part B-Grants for Supportive Services and Senior Centers	203,776
93.045	Special Programs for the Aging Title III, Part C-Nutrition Services	416,992
93.052	National Family Caregiver Support, Title III, Part E	77,666
93.053	Nutrition Services Incentive Program	36,587
93.069	Public Health Emergency Preparedness	1,126,901
93.088	Advancing System Improvements to Support Targets for Healthy People 2010	225,349
93.110	Maternal and Child Health Federal Consolidated Programs	234,260
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	241,711
93.127	Emergency Medical Services for Children	117,154

See accompanying notes to schedule of expenditures of federal awards.

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund, Continued
Year Ended September 30, 2010

CFDA #	Federal Agency/Program	Expenditures
	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED	
93.150	Projects for Assistance in Transition from Homelessness (PATH)	43,448
93.217	Family Planning - Services	187,090
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	35,734
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	397,204
93.251	Universal Newborn Hearing Screening	173,197
93.268	Immunization Grants	523,726
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	784,438
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	11,568
93.556	Promoting Safe and Stable Families	142,477
93.568	Low-Income Home Energy Assistance	144,955
93.569	Community Services Block Grant	487,881
93.575	Child Care and Development Block Grant	1,116,171
93.590	Community-Based Child Abuse Prevention Grants	140,103
93.630	Developmental Disabilities Basic Support and Advocacy Grants	291,357
93.631	Developmental Disabilities Projects of National Significance	29,805
93.643	Children's Justice Grants to States	21,315
93.645	Child Welfare Services - State Grants	130,723
93.667	Social Services Block Grant	39,589
93.669	Child Abuse and Neglect State Grants	42,190
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	104,698
93.705	ARRA - Aging Home-Delivered Nutrition Services for States	12,339
93.707	ARRA - Aging Congregate Nutrition Services for States	25,073
93.710	ARRA - Community Services Block Grant	502,292
93.712	ARRA - Immunization	75,463
93.713	ARRA - Child Care And Development Block Grant	1,086,732
93.719	ARRA - State Grants to Promote Health Information Technology	16,002
93.723	ARRA - Prevention and Wellness - State, Territories and Pacific Islands	17,042
93.767	Children's Health Insurance Program	1,092,839
93.778	Medical Assistance Program	5,508,477
93.778	ARRA - Medical Assistance Program	1,771,346
93.889	National Bioterrorism Hospital Preparedness Program	169,466
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	7,480
93.917	HIV Care Formula Grants	79,063
93.941	HIV Demonstration, Research, Public and Professional Education Projects	3,289
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	173,317
93.958	Block Grants for Community Mental Health Services	106,728
93.959	Block Grants for Prevention and Treatment of Substance Abuse	454,410
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	87,261
93.991	Preventive Health and Health Services Block Grant	36,859
93.994	Maternal and Child Health Services Block Grant to the States	422,110
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	19,218,560

See accompanying notes to schedule of expenditures of federal awards.

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund, Continued
Year Ended September 30, 2010

CFDA #	Federal Agency/Program	Expenditures
	U.S. DEPARTMENT OF HOMELAND SECURITY	
97.012	Boating Safety Financial Assistance	472,206
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	466,419
97.024	Emergency Food and Shelter National Board Program	15,472
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	396,752
97.039	Hazard Mitigation Grant	104,943
97.042	Emergency Management Performance Grants	478,463
97.053	Citizen Corps	45,219
97.055	Interoperable Communications Equipment	14,881
97.067	Homeland Security Grant Program	354,478
97.073	State Homeland Security Program (SHSP)	1,075,518
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	819,668
97.089	Real ID Program	5,712
97.114	ARRA - Emergency Food and Shelter National Board Program (ARRA)	20,000
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY	4,269,731
	Unallocated cash receipts/expenditures	(68,401)
	GRAND TOTAL	$ 84,766,261

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, 2010

CFDA #	Federal Agency/Program	Expenditures
	U.S. DEPARTMENT OF THE INTERIOR	
15.875	Economic, Social, and Political Development of the Territories:	
	Capital Improvement Projects:	
	Second Covenant	$ 107,349
	FY96 - FY02 Appropriations Act Grant	2,732,097
	FY04 Appropriations Act Grant	4,588,198
		7,427,644
	Less local match	(876,120)
	TOTAL	$ 6,551,524

Reconciliation:	
Federal awards expenditures, as stated above	$ 6,551,524
Debt service related:	
Principal	1,755,000
Interest	105,989
Operating transfers out	3,026,562
Local match	876,120
	$ 12,315,195
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	$ 9,288,633
Operating transfers out	3,026,562
	$ 12,315,195

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, 2010

CFDA #	Federal Agency/Program	Expenditures
	U.S. DEPARTMENT OF TRANSPORTATION	
20.205	Highway Planning and Construction	$ 3,912,764
	U.S. DEPARTMENT OF HOMELAND SECURITY	
97.036	Public Assistance Grants	1,608,003
	GRAND TOTAL	$ 5,520,767

See accompanying notes to schedule of expenditures of federal awards.

(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

The Schedule of Expenditures of Federal Awards presents 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. Environmental Protection Agency
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- Institute of Museum and Library Services
- U.S. Department of the Interior
- U.S. Department of Justice
- U.S. Department of Labor
- U.S. National Endowment for the Arts
- U.S. Department of Transportation

(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 expenditures 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*.

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

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, 2010 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, 2010.

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. However, the CNMI is considered to have responsibility for any questioned costs which could result from Single Audits of these entities.

d. Indirect Cost Allocation

For fiscal year 2010, 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 for purposes of determining major programs.

(3) CFDA #10.551

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal 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?	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?	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. Identification of major programs:

CFDA Number	Federal Program
10.551	Supplemental Nutrition Assistance Program
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
11.YA132309CN0062	2010 Census
20.205	Highway Planning and Construction
81.041	State Energy Program
	State Fiscal Stabilization Fund Cluster:
84.394	State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
84.397	State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act
93.778	Medical Assistance Program
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects

10.	Dollar threshold used to distinguish between Type A and Type B Programs:	$2,905,157
11.	Auditee qualified as a low-risk auditee?	No

B. FINANCIAL STATEMENT FINDINGS

Reference Number	Findings	Refer Page #
2010-01	Cash Flows	20
2010-02	Revenues/Receipts - Division of Customs	21 - 22
2010-03	Revenues/Receipts - Tobacco Settlement Resources	23
2010-04	Purchases/Disbursements	24
2010-05	Cash and Cash Equivalents	25 - 27
2010-06	Cash and Cash Equivalents	28 - 29
2010-07	Receivables	30 - 31
2010-08	Receivables	32
2010-09	Advances	33
2010-10	Interfund Receivables and Payables	34
2010-11	Retirement Contributions - General Fund	35 - 36
2010-12	Tax Rebates Payable	37 - 40
2010-13	Other Liabilities and Accruals	41 - 42
2010-14	Compensated Absences	43
2010-15	Fund Balance - Encumbrances	44 - 49
2010-16	CNMI Local Noncompliance	50 - 52

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2010-17	10.551	Cash Management	$ -	53 - 54
2010-18	10.551	Equipment and Real Property Management	$ -	55 - 56
2010-19	10.557	Eligibility	$ 4,524	57 - 58
2010-20	10.557	Equipment and Real Property Management	$ 6,375	59 - 60
2010-21	11.YA132309CN0062	Allowable Costs/Cost Principles	$ -	61 - 63
2010-22	11.YA132309CN0062	Cash Management	$ -	64
2010-23	11.YA132309CN0062	Procurement and Suspension and Debarment	$ -	65 - 66
2010-24	11.YA132309CN0062	Reporting	$ -	67 - 68
2010-25	15.875	Cash Management	$ -	69 - 71
2010-26	15.875	Equipment and Real Property Management	$ -	72 - 73
2010-27	15.875	Matching, Level of Effort, Earmarking	$ 131,864	74 - 75
2010-28	15.875	Period of Availability of Federal Funds	$ -	76
2010-29 - 30	15.875	Procurement and Suspension and Debarment	$ 31,003	77 - 79
2010-31	15.875	Program Income	$ 664,975	80
2010-32	15.875	Subrecipient Monitoring	$ -	81 - 82
2010-33	15.875	Special Tests and Provisions	$ 97,204	83
2010-34	20.205	Equipment and Real Property Management	$ -	84
2010-35	20.205	Procurement and Suspension and Debarment	$ -	85
2010-36 - 37	20.205	Special Tests and Provisions	$ 691,046	86 - 87
2010-38	81.041	Cash Management	$ -	88 - 89
2010-39	81.041	Equipment and Real Property Management	$ -	90 - 91
2010-40	81.041	Procurement and Suspension and Debarment	$ 712,076	92 - 94
2010-41	81.041	Reporting	$ -	95
2010-42	84.394/84.397	Activities Allowed or Unallowed/Allowable Costs/Cost Principles	$ 655,988	96 - 97
2010-43	84.394/84.397	Eligibility	$ 564,558	98 - 99
2010-44	84.394/84.397	Subrecipient Monitoring	$ -	100 - 101
2010-45	93.778	Allowable Costs/Cost Principles	$ 2,750	102 - 104
2010-46	93.778	Cash Management	$ 16,960	105
2010-47	93.778	Eligibility	$ 14,952	106
2010-48	93.778	Reporting	$ -	107
2010-49	All Major Programs	Allowable Costs/Cost Principles	$ 74,212	108 - 109
2010-50	All Major Programs	Procurement and Suspension and Debarment	$ -	110 - 111
2010-51	Nonmajor Programs	Allowable Costs/Cost Principles	$ 727,120	112 - 113
2010-52	Nonmajor Program	Period of Availability of Federal Funds	$ 941,572	114
2010-53	Nonmajor Programs	Procurement and Suspension and Debarment	$ 145,859	115

B. FINANCIAL STATEMENT FINDINGS

Cash Flows

Finding No. 2010-01

Criteria: Sufficient cash flows should be maintained to meet current obligations and sustain 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 burdens have 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:

	2010	2009	2008	2007	2006
Total assets	$ 35,591,168	$ 50,023,703	$ 63,742,784	$ 84,562,318	$ 73,178,439
Total liabilities	$ 352,316,059	$ 322,606,682	$ 299,614,851	$ 283,813,688	$ 225,281,973
Total fund deficit	$ (316,724,891)	$ (272,582,979)	$ (235,872,067)	$ (199,251,370)	$ (152,103,534)
Total revenues	$ 149,664,722	$ 137,755,573	$ 195,025,126	$ 159,879,556	$ 192,660,289
Total expenditures	$ 194,871,222	$ 182,674,263	$ 224,417,008	$ 193,136,802	$ 209,039,185
Other financing sources (uses)	$ 1,064,588	$ 8,207,778	$ (7,228,815)	$ (2,996,864)	$ 137,857

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 work diligently towards maintaining adequate cash flows 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 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: Various austerity measures, including reduced work hours, hiring freeze, stringent review of non-personnel expenditures and reduced budget allotments have reduced expenditures from $209.0 million in 2006 to $194.9 million in 2010 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 and 2010, 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. In fiscal year 2010, 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. In fiscal year 2011, employee work hours were reduced 20% to 64 hours per pay period, a state of emergency was declared for the Commonwealth Health Center to provide additional non-General Fund resources and other austerity measures were adopted.

Proposed Completion Date: Ongoing

Revenues/Receipts - Division of Customs

Finding No. 2010-02

Criteria: An effective system of revenue/receipts control includes procedures for cash receipts to be recorded in the period in which they are received and for collections to be timely deposited. Further, relevant supporting documents should be properly filed and maintained.

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

1. One Daily Report of Collections for Credit Cards (ref. loc. 41, Seaport, 02/05/10) was not provided.

2. Collections for the following nine transactions were deposited more than three business days after the date of collection:

Location Code	Transaction Date	Deposit Date	Elapsed	Total Cash and Check Collections
41	02/12/10	02/17/10	5	$ 15,474
41	11/09/09	11/18/09	9	$ 13,883
41	10/23/09	10/29/09	6	$ 17,732
41	11/17/09	11/27/09	10	$ 141,014
41	10/13/09	10/20/09	7	$ 15,671
41	10/06/09	10/13/09	7	$ 56,402
41	11/20/09	11/27/09	7	$ 4,593
41	04/01/10	04/06/10	5	$ 41,101
43	02/12/10	02/17/10	5	$ 1,866

3. The related invoice supporting beautification tax and other taxes on the declaration of entry (DOE) were not available for the following:

Location Code	Transaction Date	Cash Receipt #	DOE or EC #	Excise Tax Per DOE
64	12/29/09	38-10-RP	DOE# 42-10-RS	$ 1,465

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

Location Code	Transaction Date	Cash Receipt #	Cash Receipt Amount
121	01/25/10	2274613	$ 47,166
131	07/01/10	2340221	$ 38,577

Cause: The cause of the above condition is inadequate file maintenance and untimely deposit of collections.

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

Finding No. 2010-02, Continued

Recommendation: We recommend the CNMI strengthen controls over processing, recording and monitoring collections at the Division of Customs. We also recommend the Division of Customs file and maintain all relevant supporting documents. Further, we recommend that all collections be timely deposited.

Prior Year Status: The lack of controls over processing, recording and monitoring of collections and file maintenance at the Division of Customs was reported as a finding in the Single Audit of the CNMI for the fiscal year 2009.

Auditee Response and Corrective Action Plan:

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

Corrective Action: In December 2005, the Division of Customs launched the Border Management System (BMS) software. We 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 the CNMI Treasury. It has been most difficult especially when the BMS was locked out by the contracted programmer in 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 ECustoms. The Division launched the new system in August; however, the Seaport Branch encountered problems and 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 setbacks, 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 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 is able to upload them into the general ledger.

- Due to the setbacks with the BMS and ECustoms, documents were moved between ports. The Division met with 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.

- 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.

P**roposed Completion Date:** Ongoing

Revenues/Receipts - Tobacco Settlement Resources

Finding No. 2010-03

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 2010, the CNMI recognized $1,647,501 in tobacco settlement resources (TSR) revenues (Ref. fund 7067 account 45640) based on cash received. 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 take reasonable steps to meet the requirements of GASB TB 2004-1.

Prior Year Status: The lack of established estimation techniques to determine accrued tobacco settlement receivables and revenues was reported as a finding in the Single Audit of the CNMI for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The CNMI has agreed to the proposed audit adjustment for 2010 and will request documentation from the trustee regarding accrual amounts in future years.

Proposed Completion Date: 2011

Purchases/Disbursements

Finding No. 2010-04

Criteria: Expenditures should be recorded when incurred.

Condition: Of total medical related expenditures of $7,070,511 at September 30, 2010, professional services of $6,615,433 and nonpayroll expenses of $328,047 were tested. Of sixty-two items tested, fifteen items, totaling $1,394,815, 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 CNMI Department of Finance (DOF) for recording and payment.

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

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

Recommendation: We recommend that all medical billings received are timely reviewed and forwarded to the DOF and that expenditures are recorded in the correct period.

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 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, 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: FY 2011

Cash and Cash Equivalents

Finding No. 2010-05

Criteria: Bank reconciliations should be timely performed and 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, 2010, bank reconciliations for the following accounts were prepared eight to eleven months after month end. No bank reconciliations were prepared for the months of May 2010 through August 2010 for some accounts. The September 2010 bank reconciliations were prepared after the auditors' request.

Bank Code	Account Name
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
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
11572	Federal Payroll
11820	Joeten-Kiyu Public Library
11830	Law Revision Commission Imprest

Further, book reconciling items identified during monthly bank reconciliations were only adjusted in July 2011.

2. A bank reconciliation as of September 30, 2010 was not provided for the following account:

Bank Code	Account Name
11140	Chevy Chase Bank

3. The following cash account was confirmed by a bank but is not recorded:

Reference	Bank Balance
0003-9456	$ 133,101

Finding No. 2010-05, Continued

Condition, Continued:

4. At September 30, 2010, the CNMI recorded a cash clearing account of $1,115,596. This account is expected to be zero at fiscal year-end. An audit adjustment was proposed to correct $897,596 of the amount; however, correcting entries for the remaining $218,000 could not be determined.

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

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 over timely reconciliation of bank accounts and that book reconciling items be timely adjusted. Further, we recommend 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 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action:

1. We agree with the finding. There has been only one relatively inexperienced staff in the reconciliation section since April 2010 due to staff turnover and the lack of budget to replace the two departed employees. The former supervisor of the reconciliation section has been retained on a contract basis to assist in bringing the reconciliations up to date and provide training to the staff. In addition, delayed bank statements and 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 Reconciliation Section and the Divisions of Treasury and Revenue and Tax will be improved to facilitate checking account reconciliations. Procedures to provide for entry of reconciling items on a monthly basis are currently being implemented.

2. The CNMI has not been able to obtain the bank statements for this account. Higher level communication with the bank will be performed.

3. The CNMI will determine the appropriate entity for this account and ensure it is recorded in the books.

Finding No. 2010-05, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

4. We disagree with this item as the clearing account should not be zero at year end. The cash clearing account is used to clear NAP food stamp coupons issued prior to year end but clearing the coupon account subsequent to year end. The $897,596 balance represents these coupons and should be recorded. The $218,000 was an unrecorded savings account disbursement that was transferred to another account. These entries were provided to the auditors in the clearing account reconciliation.

P**roposed Completion Date:** Ongoing

Auditor Response: The $897,596 proposed audit adjustment relates to food stamp coupons that were issued prior to September 30, 2010.

We were not provided with documentation supporting the $218,000 unrecorded savings account disbursements. We were unable to verify the nature and validity of the aforementioned disbursements at year-end.

Cash and Cash Equivalents

Finding No. 2010-06

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, 2010, approximately $1,281,313 of checks were held by the Division of Treasury. The breakdown by account is as follows:

Bank Account GL #	Account Name	Number of Checks	Amount
7063.11400	Rebate Trust Fund	2,778	$ 387,820
1010.11430	General Fund	157	851,514
1010.11420	Payroll Account	31	22,939
7400.11401	Stimulus Tax Refund Account	48	19,040
		3,014	$ 1,281,313

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, 2010 bank reconciliations.

2. Additionally, one hundred seventy-eight rebate trust fund checks held, aggregating $61,692, represent checks returned by the post office. The checks have dates ranging from December 2007 through September 2010. The Division of Treasury does not appear to have monitored these returned checks as $28,105 was reported as outstanding checks in the September 30, 2010 reconciliation.

3. The September 30, 2010 General Fund bank reconciliation reflected stale-dated checks of $157,090. A substantial portion of the stale-dated checks were scholarship related and were 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 post all manual checks to the general ledger and the failure to timely address cash-related issues.

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 timely void checks requested for cancellation in the system. Additionally, we recommend that all disbursements be timely posted to the general ledger.

Prior Year Status: The lack of policies and procedures to monitor issued, unreleased and returned checks, the lack of policies and procedures to post all manual checks to the general ledger and the failure to timely address cash-related issues was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 and 2009.

Finding No. 2010-06, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action:

1. The Division of Treasury will institute a procedure to mail out all printed checks prior to the end of the fiscal year. A 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 the Division of 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: Ongoing

Receivables

Finding No. 2010-07

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, 2010 noted the following:

1. As of September 30, 2010, CHC receivables were $180,114,211 of which $173,269,711 date back to fiscal years 2009 and prior. An aging of the outstanding receivables by fiscal year is as follows:

Fiscal Year	Amount
2010	$ 6,844,500
2009	7,144,801
2008	8,474,898
2007	6,161,192
2006	8,350,223
2005 and prior	143,138,597
	$ 180,114,211

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

2. Receivables at September 30, 2010 provided by CHC are not supported by system-generated detailed reports. CHC's system is unable to generate "as of" balances and the listing may not reflect correct receivables at September 30, 2010.

3. A detailed report for one major group category (Private Companies-NR), with a September 30, 2010 receivable of $59,001,947, 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 $14,080,248. However, this amount has not been reconciled to CHC's records which reflect receivables from GHLITF of $48,442,305.

6. The receivable schedule, excluding Medicaid charges, noted an increase in gross receivables of $50,364,543; however, total receivables pertaining to fiscal year 2010 were only $6,844,500.

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 receivables; however, this effect is mitigated by a corresponding allowance for uncollectible accounts.

Finding No. 2010-07, Continued

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

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 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Esther L. Muna, Financial Services Administrator

Corrective Action: The Resource Patient Management System (RPMS) is a system used by CHC for patient management and for patient financial services. At the time of the audit, upgrades were made to the Third Party Billing module. Because this is a patient management system as well, this upgrade made to the Third Party Billing module had missing components that were generated by another module, the Patient Information Management System (PIMS). CHC only added this module in August 2011. We will continue to add all the modules necessary for the entire RPMS to work accurately and provide timely reports.

Policies and procedures will be developed and implemented to address the process of all billings and collections, including the determination of uncollectible accounts.

Proposed Completion Date: December 31, 2011 and October 31, 2011, respectively

Receivables

Finding No. 2010-08

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

Condition: As of September 30, 2010, the General Fund recorded returned checks receivable (account #1010.12800) of $938,872, which is $369,291 higher than the subsidiary ledger. A reconciliation of the difference was not available. Further, the returned check subsidiary ledger was not timely prepared as it was only updated upon audit request.

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 Audits of the CNMI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We agree with the finding. The lack of staff has been an ongoing problem. In 2010, the Division of 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: Ongoing

Advances

Finding No. 2010-09

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

Condition: As of September 30, 2010, the General Fund recorded advances to vendors of $746,010, of which $421,865 date to fiscal year 2009 and prior. An aging of vendor advances by fiscal year is as follows:

Fiscal Year	Amount
2009	$ 132,389
2008	47,527
2007	74,059
2006	97,029
2005	43,881
2004	26,980
	$ 421,865

Further, two advances tested, aggregating $39,286 (ref. #s 838164 PL and 764632 PL), for the purchase of medical laboratory supplies were received on or before September 30, 2010 and did not constitute valid advances. This condition was 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 and procedures to update advances upon receipt of related goods and/or services was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We agree that old advances need to be reviewed and adjusted. We believe that 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

Interfund Receivables and Payables

Finding No. 2010-10

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, 2010, 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.

Receivable Fund	Fund No.	Interfund Amount	Uncollectible
DOI Capital Projects	4052	$ 4,774,983	$ 2,698,625
Non-resident Worker Fund	2034	$ 919,879	$ 919,879
Tobacco Control Fund	2070	$ 219,082	$ 219,082
Solid Waste Revolving Fund	2080	$ 4,379,219	$ 4,379,219
La Fiesta Revolving Fund	2200	$ 32,688	$ 32,688

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 of interfund balances. Audit adjustments were proposed to reduce related interfund receivables for the amount deemed uncollectible through transfers to the General Fund.

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

Prior Year Status: Failure to track specific funds received, the lack of a plan to repay such funds, and the lack of available cash flow was reported as a finding in the Single Audit of the CNMI for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We have accepted the auditors' recommendation regarding audit adjustments for these balances and will review the status in 2011.

Proposed Completion Date: Ongoing

Retirement Contributions - General Fund

Finding No. 2010-11

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 remain unpaid, up to a maximum penalty of twenty-five percent of the unpaid contribution.

Condition: As of September 30, 2010, the CNMI recorded a contribution liability of $156,230,978 of which $146,371,543 dates back to fiscal year 2009 and prior. An aging of the outstanding contribution liability by fiscal year is as follows:

2010	$ 9,859,435
2009	14,677,759
2008	17,067,675
2007	17,243,509
2006	16,806,429
2005 and prior	80,576,171
	$ 156,230,978

The Fund recorded total receivables from the CNMI, including penalties and interest, of $246,036,676 as of September 30, 2010. In addition to the above, the CNMI recorded penalties and interest on unpaid contributions of $47,862,142. An audit adjustment was proposed to agree the total CNMI liability to the receivable amount recorded by the Fund as of September 30, 2010.

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 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, 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.

Finding No. 2010-11, 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 that 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 the 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, propose 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.

P**roposed Completion Date:** Ongoing

Tax Rebates Payable

Finding No. 2010-12

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, 2010, tax rebates payable aggregated $47,555,380. The balance consists of the following:

Estimated 2010 liability based on fiscal year 2010 collections	$ 5,255,634
Making Work Pay Credit (MWPC)	5,771,537
Additional Child Tax Credit (ACTC)	6,624,687
2009 and prior rebates unpaid as of September 30, 2010	29,903,522
	$ 47,555,380

Tests of the rebate payable accounts noted the following:

1. For unpaid tax year 2009 and prior rebates, we noted the following:

   a. Of forty-one unmatched filings tested relating to individual and corporate tax rebate payables of $6,884,396, the following were noted:

      i. For three items totaling $2,322,000, 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:

Assigned #	Tax Year	Rebate Payable Per Detailed Reports
I74	2005	$ 1,024,000
C-182	2003	649,000
C-527	2007	649,000
		$ 2,322,000

      ii. Four items totaling $1,071,780 did not agree to tax returns by $549,117. The variances were substantially due to incomplete information where the taxpayer either did not submit the relevant supporting documentation, the required tax form was not used and/or there was a taxpayer calculation error. Details are as follows:

Finding No. 2010-12, Continued

Condition, Continued:

Assigned #	Tax Year	Rebate Payable Per Detailed Reports	Rebate Payable Per Return	Variance
C-148	2002	$ 465,940	$ 236,366	$ 229,574
C-235	2003	556,738	286,132	270,606
C-152	2002	39,191	-	39,191
C-491	2006	9,911	165	9,746
		$ 1,071,780	$ 522,663	$ 549,117

iii. For four items totaling $208,277, tax returns were not provided.

Assigned #	Tax Year	Rebate Payable Per Detailed Reports
C-90	2001	$ 118,637
I-3038	2002	913
I-23670	2005	22,173
C-535	2007	66,554
		$ 208,277

b. Of thirty-four assessed and matched filings tested relating to individual and corporate tax rebate payables of $2,004,755, the following were noted:

i. For one $98,869 item (ref. C-1 for tax year 2000), the rebate amount in the tax return was left blank. Further, a different tax form was used and the application for rebate section was not attached.

ii. Two items totaling $190,866 did not agree to tax returns by $63,688. The variances were due to taxpayer calculation errors or amounts to be credited in the following tax year. Details are as follows:

Assigned #	Tax Year	Rebate Payable Per Detailed Reports	Rebate Payable Per Return	Variance
C-136	2002	$ 111,688	$ 119,956	$ (8,268)
C-105	2002	79,178	7,222	71,956
		$ 190,866	$ 127,178	$ 63,688

iii. For one $46,096 item (ref. C-54 for tax year 2001), the tax return was not provided.

Finding No. 2010-12, Continued

Condition, Continued:

iv. Three items were not valid payables but were included in the year-end tax rebate payable report as follows:

Assigned #	Tax Year	Rebate Payable Per Detailed Reports
I-34137	2009	$ 2,780
I-34297	2009	1,994
I-34519	2009	1,407
		$ 6,181

2. Of thirty-five accounts totaling $623,168 uploaded to the JDE system for payment, one $3,693 item (ref. 399138 PV for tax year 1999) had already been paid prior to September 30, 2010 but was reflected as unpaid in the JDE. Further, no details or totals of rebate payables relating to tax years 1999 and prior are available from the Division of Revenue and Taxation.

Further, no interest is calculated or paid on overpayments.

Cause: The cause of the above condition is the lack of periodic review of rebate payable reports to determine 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 disputes or claims.

Recommendation: We recommend that policies and procedures be established for the periodic review of tax rebate payable reports to determine 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 properly file and maintain tax forms. 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 2009.

Auditee Response and Corrective Action Plan:

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

Finding No. 2010-12, Continued

Auditee Response and Corrective Action Plan, Continued:

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.

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: Ongoing

Other Liabilities and Accruals

Finding No. 2010-13

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

Condition: During tests of subsequent disbursements, we noted $4,030,259 of unrecorded liabilities at September 30, 2010. Details by fund are as follows:

Fund	Amount
General	$ 1,534,378
Federal Grants	1,413,365
DOI Capital Projects	584,554
Nonmajor Capital Projects	469,524
Nonmajor Special Revenue	28,438
	$ 4,030,259

The above condition was corrected through a proposed audit adjustment.

Further, supporting invoices and/or documents requested were not provided for the following expenditures and we are unable to determine whether such expenditures relate to fiscal year 2010:

Voucher Number	Amount
970937	$ 9,721
970938	15,306
970939	5,652
970941	39,890
592403	3,065
Total	$ 73,634

Cause: The cause of the above condition is the lack of appropriate cut-off procedures and controls.

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

Recommendation: We recommend that the DOF implement appropriate policies and procedures to record liabilities in the correct fiscal year. We further recommend that the DOF file and maintain all relevant supporting documents.

Prior Year Status: A lack of appropriate cutoff procedures and controls was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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 end (11/30/10) while the auditors' cut-off appears to extend to the end of their field work.

Proposed Completion Date: Ongoing

Finding No. 2010-13, Continued

Auditor Response: If corrective action is not implemented, then we agree that proposed audit adjustments will continue. However, the magnitude of unrecorded liabilities could be reduced to immaterial levels if CNMI implemented a system of controls that effectively resulted in the accrual of expenditures as of September 30, whether based on invoices as of November 30, or when no invoices are received as of cut-off, then based on estimates of goods and services received as of September 30. The timing of audit field work should be of minimal consequence to an auditee's accounting procedures.

Compensated Absences

Finding No. 2010-14

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 timely updated for annual leave balances that do not represent valid obligations.

Condition: At September 30, 2010, compensated absences payable per the subsidiary ledger aggregated $8,645,210. Of this amount, $857,594 represents accrued leave of inactive, terminated, resigned or retired employees. Also, $884,600 represents accrued leave in excess of the 45 days/360 hours limit. Additionally, the balance at September 30, 2010 is net of individual debit balances of $327,647.

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 determine 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 DOF record compensated absences payable representing valid obligations.

Prior Year Status: The lack of adequate procedures and controls to determine 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 Audits of the CNMI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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 09/30/10. 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

Fund Balance - Encumbrances

Finding No. 2010-15

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 the Department of the Interior (DOI) Capital Projects Fund encumbrances:

   a. At September 30, 2010, the subsidiary ledger balance of the DOI Capital Project Fund encumbrances of $10,937,311 is net of debit balances of $2,507,115. Debit balances result when the original encumbrance is not directly debited or when debits are recorded related to expenditures for which encumbrances were never established. Debit balances also result through encumbrance cancellations and/or contract change orders. The subsidiary ledger balance was corrected for these debit balances resulting in a general ledger control account which was $1,439,382 lower than the corrected subsidiary ledger balance. 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 of $484,224 have been outstanding for more than five years. We did not evidence DOF review of long outstanding encumbrances.

   c. Of fifty-eight DOI Capital Projects Fund encumbrances tested aggregating $9,255,886, the following exceptions were noted:

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

Fund	Business Unit	Document Number	Encumbrance Amount
4044	4863	304837-OS CO #3	$ (125,000)
4044	4863	304837-OS CO #2	$ 294,650
4044	4863	304837-OS CO #2	$ 278,885
4045	4928	60002-OS	$ -
4045	4936	59-OS CO #1	$ 197,088
4058	5656	525-OS CO #2	$ 189,999

      For two items (304837-OS CO #3 and 304837-OS CO #2), the related projects were completed at September 30, 2010. For three items (60002-OS, 59-OS and 525-OS CO #2) aggregating $1,126,233, we were unable to verify if these were valid encumbrances. These conditions were corrected through proposed audit reclassifications.

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

Finding No. 2010-15, Continued

Condition, Continued:

Fund/Business Unit/General Ledger Account	Obligating Document Number	Per Expectation	Per General Ledger	Variance	APV Reference
4052.5126.64320	526-OS	$ 2,742,751	$ 2,019,828	$ 722,923	969304; 972274
4058.5636.64320	498-OS	$ 714,507	$ 456,833	$ 257,674	969543
4058.5627.62060	532-OS	$ 120,717	$ 91,492	$ 29,225	968429
4058.5629.64320	509-OS	$ 113,425	$ 110,446	$ 2,979	971827
4058.5649.62060	513-OS	$ 85,875	$ 80,675	$ 5,200	969535
4058.5652.64280	511-OS	$ 85,600	$ 67,575	$ 18,025	968795
4058.5664.64050	530-OS	$ 283,378	$ 221,680	$ 61,698	969544
4052.5241.64570	500-OS	$ 56,320	$ 51,320	$ 5,000	986923

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 three years:

Fund	Business Unit #	General Ledger Account #	Obligating Document	Amount	Last Date of Transaction
4045	4901	64320	70169-OS	$ (245,591)	10/15/03
4044	4863	62060	304837-OS	$ 1,025	07/20/00
4045	4803	64590	220-OS	$ 41,600	06/11/03
4045	4910	64320	70152-OS	$ (139,225)	02/14/00
4045	4928	64320	60002-OS	$ (64,910)	11/30/96
4045	4936	64320	59-OS	$ (316,674)	06/02/03
4045	4967	64320	60333-OS	$ -	11/25/97
4052	5122	64280	144-OS	$ 196,304	06/10/05
4052	5135	64280	233-OS	$ 50,000	07/14/06
4052	5136	64100	194-OS	$ (658,476)	04/16/08
4052	5158	64280	382-OS	$ 76,448	06/22/07
4052	5164	64320	123-OS	$ 287,920	09/30/03
4052	5165	64320	159-OS	$ (239,351)	11/06/02
4052	5177	64290	396-OS	$ 32,017	06/06/07

The debit balances in this condition are included in the total debit balance corrected in condition 1.a.

iv. The following variances were noted between amounts initially recorded and the actual obligating document:

Fund/Business Unit	Obligating Document Number	Per General Ledger	Per Obligating Document	Variance
4045.4901	70169-OS	$ 941,487	$ 857,620	$ 83,867
4045.4910	70152-OS	$ 399,512	$ 445,730	$ (46,218)
4045.4967	60333-OS	$ 163,040	$ 176,000	$ (12,960)

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

Fund/Business Unit	Obligating Document Number	Per General Ledger	Per Obligating Document	Variance
4058.5654	533-OS	$ 246,960	$ -	$ 246,960
4058.5654	536-OS	$ 249,800	$ -	$ 249,800

Finding No. 2010-15, Continued

Condition, Continued:

vi. One item (ref. 468-OS fund/business unit/general ledger account # 4058.5602.64280) has a variance of $93,009 due to unrecorded encumbrance cancellation as of September 30, 2010.

2. Of forty Federal Grants Fund encumbrances tested aggregating $9,785,661, the following were noted:

a. The obligating/encumbering document for one item (ref. 507854-OP fund/business unit # 2020.I8875H) for $2,179 was not provided.

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

Fund/Business Unit/General Ledger Account	Obligating Document Number	Per General Ledger	Per Expectation	Variance	APV Reference
2020.C9300B.64499	515-OS	$ 200,701	$ 113,838	$ 86,863	969541
2020.H9251A.64540	523243-OC	$ 17,452	$ -	$ 17,452	968440
2020.H9575C.62300	523978-OP	$ 1,000	$ -	$ 1,000	969390
2020.H9643A.62060	515986-OC	$ 40,000	$ 29,315	$ 10,685	973652
2020.I9904C.62060	514839-OC	$ 39,517	$ -	$ 39,517	973040
2020.J6074E.64550	516669-OC	$ 423,850	$ 282,567	$ 141,283	968388
2020.M8017A.64499	504459-OC	$ 294,305	$ 227,572	$ 66,733	969206
2020.T06007.62060	508366-OC	$ 145,334	$ 73,663	$ 71,671	975602
2020.T8205U.64670	495685-OC	$ 334,518	$ 189,061	$ 145,457	975772
2022.E9041S.62420	518941-OC	$ 19,200	$ 17,600	$ 1,600	969564
2022.E9390S.62060	521578-OM	$ 8,625	$ 2,841	$ 5,784	975525
2022.H9713B.62060	524322-OP	$ 22,107	$ 20,562	$ 1,545	969449

This condition was corrected through a proposed audit adjustment.

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

Fund/Business Unit/General Ledger Account	Obligating Document Number	Per General Ledger	Per Expectation	Variance	APV Reference
2020.A05515.63020	524204-OM	$ 801,844	$ -	$ 801,844	969439
2022.E9041S.62060	523544-OC	$ 599,468	$ -	$ 599,468	966914
2020.A05515.63020	522814-OM	$ 58,546	$ -	$ 58,546	969431
2020.H0778B.62060	525260-OD	$ 10,055	$ -	$ 10,055	968379

This condition was corrected through a proposed audit adjustment.

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

Finding No. 2010-15, Continued

Condition, Continued:

Fund/Business Unit/General Ledger Account	Obligating Document Number	Per General Ledger	Per Expectation	Variance
2020.A05515.63020	524511-OM	$ 25,988	$ -	$ 25,988
2020.H9251A.64540	523243-OC	$ 17,452	$ -	$ 17,452
2020.H9643A.62060	515986-OC	$ 40,000	$ 29,315	$ 10,685
2020.I98755.62060	516798-OC	$ 254,459	$ -	$ 254,459
2020.P7805A.63120	498063-OP	$ 1,960	$ -	$ 1,960
2022.E9041S.62060	522810-OC	$ 141,454	$ -	$ 141,454
2022.P9805S.62060	523176-OC	$ 56,963	$ 11,123	$ 45,840

This condition was corrected through a proposed audit adjustment.

3. Of eleven General Fund encumbrances tested aggregating $1,472,777, the following were noted

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

Fund	Business Unit	Document Number	Encumbrance Amount
1010	1972	289113-OT	$ 3,827
1010	1975	287859-OT	$ 2,100
1010	1011	471415-OC	$ 28,083

   We were unable to verify if these are valid encumbrances at September 30, 2010.

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

Fund/Business Unit/General Ledger Account	Obligating Document Number	Per General Ledger	Per Expectation	Variance	APV Reference
1010.1972.62500	289113	$ 3,827	$ -	$ 3,827	578808
1010.1975.62500	287859	$ 2,100	$ -	$ 2,100	584732
1012.1831.63070	506110	$ 1,031,775	$ 1,031,588	$ 187	973626
1012.1855.62250	503312	$ 64,229	$ 55,616	$ 8,613	968783

   c. One item (ref. 523625-OP fund/business unit 1012.1812) for $500 was cancelled subsequent to year-end.

   d. One item (ref. 513521-OP fund/business unit 1012.1011) for $22,000 was double recorded.

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

Fund/Business Unit/General Ledger Account	Obligating Document Number	Per General Ledger	Per Expectation	Variance
1012.1831.63070	357980-OC	$ 299,927	$ -	$ 299,927
1012.1840.63080	514022-OA	$ 19,210	$ -	$ 19,210

Finding No. 2010-15, Continued

Condition, Continued:

4. Of three Special Revenue Fund encumbrances tested aggregating $470,364, the following were noted:

   a. One item (ref. 490185-OP fund/business unit 2080.2082) for $17,220 had a variance of $3,822 from expectation due to cancellation.

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

Fund/Business Unit/General Ledger Account	Obligating Document Number	Per General Ledger	Per Expectation	Variance	APV Reference
2080.2082.62060	490185-OC	$ 13,398	$ 6,732	$ 6,666	974493
2080.2082.62060	528-OS	$ 440,720	$ 419,733	$ 20,987	968299

5. Our tests of nonmajor Capital Projects Fund encumbrances noted the following:

   a. An aging of the reserve for encumbrances by fiscal year indicates encumbrances of $1,146,196 have been outstanding for five years or more.

   b. Of eleven nonmajor Capital Projects Fund encumbrances tested aggregating $11,841,624, the following were noted:

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

Fund/Business Unit/General Ledger Account	Obligating Document Number	Per General Ledger	Per Expectation	Variance	APV Reference
4043.T4205D.64670	503673-OC	$ 1,920,440	$ 1,705,508	$ 214,932	969227
4043.T5205I.64670	508828-OC	$ 3,905,843	$ 3,692,620	$ 213,223	969999
4043.T9205H.64670	521210-OC	$ 3,388,000	$ 3,379,188	$ 8,812	977220
4043.T5205I.62060	504887-OC	$ 248,567	$ 219,810	$ 28,757	969215
4043.T8516B.64670	514845-OC	$ 1,043,693	$ 991,767	$ 51,926	969223
4043.T9205H.62060	509239-OC	$ 404,700	$ 142,799	$ 261,901	969230

      For one item (509239-OC), the variance includes a cancellation of $246,194. This condition was corrected through a proposed audit adjustment.

      ii. The following Capital Projects Fund encumbrances did not indicate any activity for more than three years:

Fund	Business Unit #	General Ledger Account #	Obligating Document	Amount	Last Date of Transaction
4042	4633	64300	89-OS	$ 1,191	12/10/04
4043	T2205K	62060	384927-OC	$ 49,483	03/17/03
4043	T85164	64100	333747-OC	$ 879,707	07/10/06

Finding No. 2010-15, Continued

Condition, Continued:

iii. One item (ref. 509239-OC fund/business unit # 4043.T9205H) for $404,700 has a variance of $246,194 due to encumbrance changes.

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.

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

Recommendation: We recommend that the DOF support all encumbrances with encumbering documents and update encumbrances for actual expenditures. Additionally, we recommend that long outstanding encumbrances and debit balances be examined for validity. We further recommend that the DOF take reasonable steps to timely adjust the subsidiary ledger and include only valid encumbrances at year end.

Prior Year Status: The lack of policies and procedures to monitor recorded reserves for encumbrances and inadequate file maintenance was reported as a finding in the Single Audit of the CNMI for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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 #s2, 3, 4 and 5, many of the details relate to unrecorded liabilities and subsequent cancellations that were corrected through AJEs.

Proposed Completion Date: Ongoing

CNMI Local Noncompliance

Finding No. 2010-16

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. During the year ended September 30, 2010, the CNMI operated under a continuing resolution of Public Law 16-32. On March 9, 2010, the CNMI Governor mandated a proportional reduction of 7.25% in the continuing budget authority. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2010.

	Budgeted Level of Expenditures	Actual Expenditures	Over-Expenditure
Executive Branch:			
Attorney General	$ 2,988,734	$ 3,049,653	$ 60,919
Commerce	$ 762,037	$ 887,397	$ 125,360
Community & Cultural Affairs	$ 1,822,070	$ 2,311,192	$ 489,122
Corrections	$ 2,781,303	$ 3,248,280	$ 466,977
Finance	$ 4,232,620	$ 5,665,353	$ 1,432,733
Lands and Natural Resources	$ 2,289,122	$ 2,502,028	$ 212,906
Office of the Governor	$ 8,063,552	$ 8,479,840	$ 416,288
Public Health	$ 28,286,066	$ 41,536,942	$ 13,250,876
Public Safety	$ 5,226,773	$ 8,426,304	$ 3,199,531
Public Works	$ 2,924,786	$ 3,061,656	$ 136,870
Second Senatorial District - Tinian:			
Dental Services	$ 130,599	$ 159,510	$ 28,911
DPS Police	$ 1,215,103	$ 1,364,155	$ 149,052
Environmental Health	$ 62,635	$ 67,156	$ 4,521
Finance and Accounting	$ 124,644	$ 129,632	$ 4,988
Fish and Wildlife	$ 89,868	$ 104,481	$ 14,613
Historic Preservation	$ 45,630	$ 59,682	$ 14,052
Inauguration - Tinian Mayor	$ -	$ 5,644	$ 5,644
Mayor Tinian	$ 2,631,447	$ 2,771,103	$ 139,656
Parks and Recreation	$ 95,015	$ 110,899	$ 15,884
Procurement and Supply	$ 34,791	$ 52,720	$ 17,929
Sports and Recreation	$ 101,529	$ 117,872	$ 16,343
First Senatorial District - Rota:			
Agriculture	$ 544,402	$ 618,577	$ 74,175
Customs Service	$ 122,422	$ 170,711	$ 48,289
DPS Police	$ 793,554	$ 935,471	$ 141,917
DPS Port and Prop	$ 285,321	$ 338,575	$ 53,254
Economic Development	$ 203,490	$ 227,514	$ 24,024
Environmental Health	$ 49,894	$ 59,835	$ 9,941
Finance and Accounting	$ 106,474	$ 112,850	$ 6,376
Historic Preservation	$ 87,804	$ 112,265	$ 24,461
Inauguration - Rota Mayor	$ -	$ 6,799	$ 6,799
Land Registration	$ 107,416	$ 146,812	$ 39,396
Mayor Rota	$ 1,702,571	$ 1,902,257	$ 199,686
Operations and Maintenance	$ 606,583	$ 697,218	$ 90,635
Parks and Recreation	$ 67,371	$ 88,301	$ 20,930
Procurement and Supply	$ 38,501	$ 47,660	$ 9,159
Revenue and Taxation	$ 49,060	$ 74,969	$ 25,909
Rota Health Center	$ 1,516,395	$ 1,644,765	$ 128,370
Soil and Water Conservation	$ 20,051	$ 25,079	$ 5,028
Sports and Recreation	$ 210,971	$ 224,641	$ 13,670

Finding No. 2010-16, Continued

Condition, Continued:

	Budgeted Level of Expenditures	Actual Expenditures	Over-Expenditure
Government Utilities	$ 5,309,850	$ 6,262,573	$ 952,723
Judicial Branch:			
CNMI Superior Court	$ 1,678,377	$ 2,055,375	$ 376,998
CNMI Supreme Court	$ 745,885	$ 945,284	$ 199,399
Administrative	$ 344,157	$ 448,684	$ 104,527
Independent Programs:			
La Fiesta Lease	$ 183,233	$ 200,000	$ 16,767
Pacific Basin Development Council	$ 39,353	$ 41,000	$ 1,647
Joeten/Kiyu Public Library	$ 118,615	$ 163,731	$ 45,116
Third Senatorial District - Saipan:			
Inauguration - Saipan Mayor	$ -	$ 6,446	$ 6,446
Office of the Public Auditor	$ 1,001,042	$ 1,237,542	$ 236,500
Boards and Commissions:			
Board of Professional Licensing	$ 120,294	$ 120,877	$ 583
Civil Service Commission	$ 165,640	$ 190,556	$ 24,916
CNMI Election Commission	$ 255,472	$ 453,040	$ 197,568
Education (payment to Public School System):			
Payments to Public School System	$ 31,219,656	$ 34,160,627	$ 2,940,971
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund):			
Payments to CNMI Workers' Compensation Commission and the Northern Mariana Islands Retirement Fund	$ 917,582	$ 2,180,913	$ 1,263,331
Disaster Expenditures	$ -	$ 558,742	$ 558,742

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 DOF authorize expenditures only within budgeted allotment levels.

Prior Year Status: Over-expenditures in excess of budget allotments was reported as a finding in the CNMI Single Audits for fiscal years 2000 through 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance and Virginia C. Villagomez, Special Assistant for Management & Budget

Finding No. 2010-16, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree that a deficit was incurred in FY2010. Since there was no 2010 budget enacted, the budgetary basis for 2010 was a continuing resolution under P.L. 16-32, the budget act for FY2009. The personnel austerity measures originally incorporated in the budget expenditure level were not included in the final passage of P.L. 16-32. As a result, options for personnel reductions were limited. Personnel reductions were incorporated into the FY2011 budget act (P.L. 17-21) allowing for across the board personnel reductions. In addition, the medical referral budget was set at $5,000 in P.L. 16-32 while expected costs were $5 million to $6 million resulting in a choice between no medical referrals or incurring a deficit. Escalating fuel costs contributed to deficits in the utility accounts for the central government and the Public School System.

Proposed Completion Date: FY2011

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2010-17
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
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 refunds from the date the refund is credited to the CNMI's account until the date the refund is debited from the CNMI's account for program purposes. The allowable clearance pattern is seven days.

Further, a written policy should exist that includes, 1) those programs covered by the agreement, 2) the method of funding to be used, 3) the method used to calculate interest, and 4) procedures for determining check clearing patterns. In addition, compliance with Treasury-State agreements should be reviewed.

Condition: The CNMI Division of Nutrition Assistance Program (NAP) received $10,425,003 in program benefits related to food costs. Of the total, $9,672,727 was tested. For fifteen of twenty-five food cost samples tested, the following were paid after the allowable clearance pattern:

APV No.	Amount	Clearance Date	Cash Receipt Date	Days Elapsed After the Allowable Clearance Pattern
820197	$ 728,013	10/30/09	10/22/09	1
825993	$ 778,231	12/31/09	12/17/09	7
827252	$ 665,571	01/29/10	01/15/10	7
832448	$ 793,589	03/31/10	03/22/10	2
835443	$ 683,516	04/30/10	04/22/10	1
837782	$ 167,458	05/28/10	04/22/10	29
837787	$ 671,113	05/28/10	04/22/10	29
824251	$ 59,275	11/06/09	10/22/09	8
825988	$ 53,823	12/04/09	11/23/09	4
828936	$ 84,374	02/01/10	01/15/10	10
828937	$ 66,524	02/01/10	01/15/10	10
832443	$ 53,864	03/02/10	02/19/10	4
832444	$ 108,330	03/02/10	02/19/10	4
859569	$ 784,211	06/29/10	06/11/10	11
859564	$ 185,103	06/04/10	05/19/10	9

In addition, while a Treasury-State Agreement (TSA) is available, the CNMI does not have established policies that provide (a) procedures to minimize the time elapsed between the funds receipt date and disbursements; (b) monitoring of cash management activities; (c) repayment of excess interest earnings when required; and (d) review of Treasury-State agreements.

Cause: The cause of the above condition is a lack of procedures to determine that cash advanced from the grantor agency is timely disbursed. Further, there is no written policy that provides for procedures on cash management activities.

Finding No.:	2010-17, Continued
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.551 Supplemental Nutrition Assistance Program
Grant Number:	7NM4004NM
Area:	Cash Management
Questioned Costs:	$-0-

Effect: The effect of the above condition is noncompliance with federal cash management requirements. Interest earned on advances is $165, and an interest liability of $65 exists; however, no questioned costs result from this condition as the projected interest liability is less than $10,000.

Recommendation: We recommend that the DOF comply with the CMIAA clearance pattern. We also recommend that the DOF establish policies and procedures that include, 1) those programs covered by the agreement, 2) the method of funding to be used, 3) the method used to calculate interest, and 4) procedures for determining check clearing patterns.

Prior Year Status: The lack of procedures over timely disbursement of cash advanced from the grantor agency was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 through 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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 and the improvement shown from the 2009 audit. The financial statement section of this audit (FY2010) shows receivables from Federal agencies of $6,992,659 for Federal grants as of September 30, 2010. We will document and review our procedures with appropriate staff to minimize the timing differences. 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: Ongoing

Auditor Response: Audit procedures are based on available information provided by the auditee. We were not provided with an overall analysis by the auditee that demonstrates adherence to the Average Clearance technique described in the TSA.

Finding No.:	2010-18
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.551 Supplemental Nutrition Assistance Program
Grant Number:	7NM4004NM
Area:	Equipment and Real Property Management
Questioned Costs:	$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a physical inventory of property must be taken and results reconciled with property records at least every two years.

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 NAP and P&S 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 fifty-three items listed, four hundred ninety-four items did not have information as to physical location and eighty-seven items did not have cost information.

b. Property records maintained by NAP did not have information as to source of the property and who holds the title. Further, of five hundred forty-six items listed, ninety-two items did not have cost information and one item did not have an acquisition date.

c. A reconciliation of property records maintained by NAP and P&S has not been completed. The property records maintained by NAP list five hundred forty-six items compared to five hundred fifty-three items listed in P&S records. Further, total cost of property and equipment per NAP is $333,923 compared to $358,911 in P&S's listing.

d. Random audits of property held by NAP to validate the integrity of the property control process were not performed.

We are unable to assess the overall cumulative monetary value of the deficiencies above. However, total capital outlays for fiscal years 2010, 2009, 2008 and 2007 were $15,696, $47,525, $12,655 and $10,272, respectively.

Cause: The cause of the above condition is lack of adherence with established policies and procedures regarding property records maintained and an absence of reconciliation between property records of P&S and NAP.

Finding No.:	2010-18, Continued
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.551 Supplemental Nutrition Assistance Program
Grant Number:	7NM4004NM
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 CNMI Property Management Policies and Procedures. No questioned costs result from this finding as the physical count indicates the property exists and is in use for the program.

Recommendation: We recommend that the CNMI comply with applicable CNMI Property Management Policies and Procedures.

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 NAP was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 through 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, NAP Administrator

Corrective Action: We agree with the finding. For condition b., NAP will get these information from NMC and update our listing to include the missing cost information and include a column in our format on the source and title and correct the one item with missing acquisition date before October 30, 2011. For condition c., we will update and synchronize the NAP property listing with the P&S listing by October 30, 2011.

Proposed Completion Date: October 30, 2011

Finding No.: 2010-19
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Grant Number: 7NM700NM7
Area: Eligibility
Questioned Costs: $4,524

Criteria: In accordance with applicable eligibility requirements:

1. 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.

2. The participant must present proof of identity and residency at certification. Further, the participant must meet an income standard established by the State agency or be determined to be automatically (adjunctively) income-eligible based on documentation of his/her eligibility, or certain family members' eligibility of certain federal programs.

3. Certification periods are assigned to each participant based on the categorical status for women, infants and children.

4. Rights and obligations document must be signed by the certifier and income verifier.

Condition: Our tests of sixty participants indicated the following:

1. A rights and obligations document was not provided for one participant:

Voucher No.	WIC ID No.	Issue Date	Date Used	Amount Tested	Actual Questioned Costs
205719	10010005794	02/07/10	02/11/10	$ 46	$ 846

2. Documents evidencing the participant's identity, residency and income eligibility were not referred to in the signed rights and obligations document for one participant:

Voucher No.	WIC ID No.	Issue Date	Date Used	Amount Tested	Actual Questioned Costs
28801	20010003919	10/16/09	10/21/09	$ 24	$ 240

3. The certification period was not indicated on the rights and obligations document for one participant:

Voucher No.	WIC ID No.	Issue Date	Date Used	Amount Tested	Actual Questioned Costs
150460	10010006446	10/01/09	10/19/09	$ 31	$ 1,158

Finding No.: 2010-19, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Grant Number: 7NM700NM7
Area: Eligibility
Questioned Costs: $4,524

Condition, Continued:

4. A rights and obligations document for one participant was not signed by the certifier and income verifier.

Voucher No.	WIC ID No.	Issue Date	Date Used	Amount Tested	Actual Questioned Costs
305323	10010003688	05/15/10	06/21/10	$ 72	$ 2,280

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 $4,524 since the projected costs exceeded $10,000.

Recommendation: We recommend that WIC strengthen record keeping controls to maintain case files supporting eligibility determinations.

Prior Year Status: The lack of controls over the eligibility process was reported as a finding in the Single Audit of the CNMI for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Clinic Manager, Clinic Administrative Assistant and Quality Assurance Coordinator

Corrective Action: The Clinic Manager and Clinic Administrative Assistant are currently compiling August and September 2011 Rights & Obligations (R&Os) for review. The WIC Clinic will also implement procedures to review R&Os on a daily basis. The Quality Assurance Coordinator will be tasked to conduct monthly random reviews of R&Os and report any discrepancies to appropriate management. Discrepancies found during these reviews will be discussed with responsible clinic staff individually. These discrepancies will also be used as scenarios for discussion with all clinic staff during its weekly meetings as a training topic.

Proposed Completion Date: Ongoing

Finding No.:	2010-20
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Grant Number:	7NM700NM7
Area:	Equipment and Real Property Management
Questioned Costs:	$6,375

Criteria: In accordance with applicable equipment and real property management requirements, a physical inventory of property must be taken and results reconciled with property records at least every two years.

The CNMI Property Management Policies and Procedures requires 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.

Moreover, when acquiring replacement equipment, the grantee or subgrantee may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of the awarding agency.

Condition: The following were noted during our examination of WIC and P&S compliance with the above requirements:

1. WIC's property listing is not reconciled with P&S. The P&S listing included two hundred fifteen fixed asset items compared to WIC's listing of four hundred forty-five items as of September 30, 2010. We are aware that WIC and P&S conducted physical inventory in March 2011; however, the results were not incorporated into the financial statements. No questioned cost is presented for this condition as we are unable to assess the overall cumulative monetary value of the deficiency; however, total capital outlays for fiscal years 2010, 2009 and 2008 were $53,417, $20,252 and $107,331, respectively.

2. WIC acquired a vehicle (GOV LP-3970) through trade-in of another vehicle valued at $6,375 using federal funds. WIC was not able to provide the approval from the awarding agency of the trade-in.

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 and questioned costs of $6,375.

Finding No.:	2010-20, Continued
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Grant Number:	7NM700NM7
Area:	Equipment and Real Property Management
Questioned Costs:	$6,375

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

Prior Year Status: The lack of adherence to established policies and procedures regarding compliance with equipment and real property management requirements was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Program Administrator, Office Manager, Quality Assurance Coordinator and Administrative Assistant

Corrective Action:

Property Listings

The CNMI WIC Program will continue to work with P&S until both listings are reconciled. P&S has informed the WIC Program that its listing of WIC property has been updated since the audit review but has not yet been completed due to staff shortage. The WIC Program will continue to follow-up with P&S on this matter. The Quality Assurance Coordinator will be requested to conduct random reviews of the WIC Program's property listing with comparison to the listing of P&S to ensure compliance with applicable property rules and regulations.

Trade-In Vehicle

The lack of documentation or approval from our grantor agency for the trade-in of this vehicle cannot be explained as it was during the time of previous management. However, the WIC Program will ensure that prior approval from our grantor agency is obtained for future trade-in of WIC property.

Proposed Completion Date: Ongoing

Finding No.: 2010-21
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.YA132309CN0062 2010 Census
Contract Number: YA132309CN0062
Area: Allowable Costs/Cost Principles
Questioned Costs: $-0-

Criteria: An effective system of internal control includes policies and procedures for expenditures to be authorized, supported and approved prior to incurrence. Further, payroll costs should be supported by authorized personnel action forms and timecards/timesheets or equivalent. Finally, indirect costs of up to 8% of actual costs can be charged for program administrative costs.

Condition: Of sixteen nonpayroll expenditures tested totaling $648,119 of a total population of $1,236,046, the following were noted:

1. One journal entry (JE # 177576) recorded an operating transfer of $200,000 from Census to a local department as reimbursement for payroll and other expenditures incurred in connection with the census project. Detailed documentation to support the $200,000 could not be provided. Another journal entry (JE # 177577) recorded $77,550 in personnel costs and other expenditures from a local account to the Census fund. Documentation to support the percentages, employees and actual expenditures in determining the $77,550 could not be provided; moreover, such expenditures were already included in JE # 177576 as part of the expenditure transactions funded by the $200,000 transfer, resulting in a double recording of expenditures.

2. Supporting documentation for one item could not be provided as follows:

General Ledger Date	Reference No.	General Ledger Amount
07/31/10	T2 6280	$ 50,780

3. For two expenditure items (PV #s 865122 and 965849) totaling $41,480, the purchase order, requisition or equivalent obligating document was not available.

Of forty-three payroll expenditures tested totaling $44,471, the following were noted:

1. Authorized personnel action forms extending the period of employment were not provided for the following:

Termination Date per Personnel Action Form	Employee No.	Payroll Period End	Amount
06/30/10	254206	07/17/10	$ 1,331
06/30/10	253451	08/28/10	1,013
07/16/10	172255	07/31/10	344
			$ 2,688

2. Employee # 680156 was overpaid for two hours in the amount of $34 during the payroll period ended May 22, 2010.

Finding No.: 2010-21, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.YA132309CN0062 2010 Census
Contract Number: YA132309CN0062
Area: Allowable Costs/Cost Principles
Questioned Costs: $-0-

Condition, Continued:

3. Incentive and severance payments were made to the following employees that could not be substantiated:

Employee No.	Payroll Period Ended	Incentive Pay	Severance Pay	Amount
679871	08/28/10	$ 2,501	$ 2,626	$ 5,127
159789	07/31/10	$ 1,004	$ -	1,004
253451	08/28/10	$ -	$ 1,013	1,013
680252	07/31/10	$ 1,004	$ -	1,004
				$ 8,148

The program paid incentive and severance benefits of $431,346 and $108,791, respectively; however, grantor approval and documentation of the basis for the calculation could not be provided.

4. The effective date of the authorized personnel action form for the following employee was March 22, 2010; however, the employee began employment on March 16, 2010:

Employee No.	Payroll Period Ended	Hours Worked Prior to Effective Date of Employment	Amount
340664	03/27/10	20	$ 319

5. An authorized timecard or equivalent was not provided for the following employees:

Employee No.	Payroll Period Ended	Unsupported Hours Worked	Amount
680255	06/05/10	50	$ 789
101522	11/21/09	8	280
			$ 1,069

6. Total indirect costs charged to the program exceeded the ceiling of 8% by $23,155.

Cause: The cause of the above condition is lack of documentation to support program expenditures.

Effect: The effect of the above condition is possible noncompliance with allowable costs/cost principle; however, since the CNMI has received the grantor's closeout letter stating that the CNMI has met all the requirements within the total contract value of the fixed price contract, no questioned costs are presented.

Finding No.:	2010-21, Continued
Federal Agency:	U.S. Department of Commerce
CFDA Program:	11.YA132309CN0062 2010 Census
Contract Number:	YA132309CN0062
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Recommendation: We recommend that procedures be strengthened to maintain adequate documentation supporting program expenditures. We further recommend that indirect costs are monitored and charged pursuant to grant or contract terms and conditions.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sixto Igisomar, Acting Secretary, Department of Commerce

Corrective Action: We agree these are not questioned costs. The US Census had a local advisor who worked closely with the local counterparts in ensuring operations ran smoothly. This is evident in its communication to the CNMI that the terms and requirements of the contract were satisfactorily met. All matters of payroll, POs and the transfer of $200,000 to the General Fund received approval from the US Census with support from the advisor. The $200,000 issue raised was an approved transfer from the US Census account to the General Fund to defray costs associated with housing the US Census payroll office and other related expenses. The $77,550 issue raised was supposed to be charged to the $200,000 in the General Fund but may have been mischarged as human error. This will be corrected through a JV. During the closing of the US Census, files were being transferred to the Department of Commerce and all US Census employees with knowledge of the specific files were not available.

We accept the recommendation that procedures be strengthened to maintain adequate documentation supporting program expenditures and proper transfer of file location knowledge to be carried out. We will ensure detailed documentation is provided to support the breakdown of the $200,000. We will reverse the double recording of $77,550 in the General Fund and charge to the $200,000 transferred from the US Census account.

Proposed Completion Date: As this is a decennial program, we will use the recommendation provided to ensure proper documentations are readily available.

Finding No.: 2010-22
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.YA132309CN0062 2010 Census
Contract Number: YA132309CN0062
Area: Cash Management
Questioned Costs: $-0-

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of federal funds and the payout of funds for program costs should be minimized.

Condition: For sixteen (or 100%) transactions tested, the time elapsed between the receipt of federal funds and the clearance of disbursed checks exceeded three days, ranging from sixty-six to two hundred fifty days as follows:

Document No.	Amount	Clearance Date	Cash Receipt Date	Days Elapsed After the Allowable Clearance Pattern
817922	$ 140,000	10/30/09	08/18/09	70
817502	$ 28,000	10/26/09	08/18/09	66
826357	$ 56,000	02/10/10	08/18/09	173
830572	$ 56,000	04/06/10	08/18/09	228
832814	$ 28,000	04/28/10	08/18/09	250
177576	$ 200,000	09/30/10	04/29/10	151
177577	$ 24,405	09/30/10	04/29/10	151
6280	$ 50,780	08/13/10	03/12/10	151
6217	$ 5,660	06/18/10	03/12/10	95
833368	$ 5,912	06/21/10	11/23/09	207
865122	$ 21,030	08/09/10	03/12/10	147
834089	$ 5,787	05/17/10	11/23/09	172
865749	$ 340	08/20/10	04/29/10	110
965849	$ 20,450	10/29/10	04/29/10	180
865285	$ 754	08/30/10	04/29/10	120
865280	$ 5,000	08/11/10	04/29/10	101

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

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of $330 exists; however, no questioned costs result from the condition as the projected interest liability is less than $10,000.

Recommendation: We recommend that the CNMI establish internal controls over cash management to comply with federal requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The Census Bureau released payments to a special bank account per a schedule in the contract rather than drawdowns. Funds were transferred from this account to the regular CNMI disbursement account to cover Census expenditures as they occurred. The CNMI feels the interest liability should be calculated based on the disbursement transfers rather than payments to the Census account.

Proposed Completion Date: Ongoing

Finding No.: 2010-23
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.YA132309CN0062 2010 Census
Contract Number: YA132309CN0062
Area: Procurement and Suspension and Debarment
Questioned Costs: $-0-

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 that 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 sixteen nonpayroll expenditures tested aggregating $648,119 of a total population of $1,236,046, the following were noted:

1. Procurement documents evidencing full and open competition could not be provided as follows:

General Ledger Date	APV No.	General Ledger Amount
08/06/10	865122	$ 21,030
09/23/10	965849	20,450
09/30/10	177576	200,000
		$ 241,480

2. One item (APV No. 834089, amounting to $5,787) was procured using expedited procurement. Although a justification memo was provided for the method utilized, there was no written determination by the P&S Director that the factors in the memo justify an expedited purchase.

Cause: The cause of the above condition is the lack of compliance with procurement regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations; however, since the CNMI has received the grantor's closeout letter stating that the CNMI met all requirements within the total contract value of the fixed price contract, no questioned costs are presented.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sixto Igisomar, Acting Secretary, Department of Commerce

Finding No.:	2010-23, Continued
Federal Agency:	U.S. Department of Commerce
CFDA Program:	11.YA132309CN0062 2010 Census
Contract Number:	YA132309CN0062
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree these are not questioned costs. The US Census had a local advisor who worked closely with the local counterparts in ensuring operations ran smoothly. This is evident in its communication to the CNMI that the terms and requirements of the contract were satisfactorily met. All matters of payroll, POs and the transfer of $200,000 to the General Fund received approval from the US Census with support from the advisor. The $200,000 issue raised was an approved transfer from the US Census account to the General Fund to defray costs associated with housing the US Census payroll office and other related expenses. The $77,550 issue raised was supposed to be charged to the $200,000 in the General Fund but may have been mischarged as human error. This will be corrected through a JV. During the closing of the US Census, files were being transferred to the Department of Commerce and all US Census employees with knowledge of the specific files were not available.

We accept the recommendation that procedures be strengthened to maintain adequate documentation supporting program expenditures and proper transfer of file location knowledge to be carried out. We will ensure detailed documentation is provided to support the breakdown of the $200,000. We will reverse the double recording of $77,550 in the General Fund and charge to the $200,000 transferred from the US Census account.

Proposed Completion Date: As this is a decennial program, we will use the recommendation provided to ensure proper documentations are readily available.

Finding No.:	2010-24
Federal Agency:	U.S. Department of Commerce
CFDA Program:	11.YA132309CN0062 2010 Census
Contract Number:	YA132309CN0062
Area:	Reporting
Questioned Costs:	$-0-

Criteria: Pursuant to the contract or award notification, the grantee must submit the following reports or project deliverables:

(a) Monthly cost/expense and progress reports and

(b) Final statement of cost to be submitted ninety days after the closing of CNMI Local Census Office (LCO).

Final approval and acceptance of reports and deliverables will be provided in writing by the Contracting Officer Representative (COR).

Condition: Our tests of reporting noted the following:

1. The Final statement of cost for the year ended September 30, 2010 reported total accumulated expenditures that were $80,855 less than expenditures recorded in the general ledger.

2. Copies of monthly cost/expense and progress reports and documentation of submission were not provided for the months of March 2010 through September 2010. Further, the total expenses reported in the monthly cost/expense reports provided for the months of October 2009 through February 2010 did not agree to the total monthly expenses reported in the final statement of cost.

Cause: The cause of the above condition is the lack of reconciliation between the LCO and the DOF to accurately report program expenditures and improper file maintenance.

Effect: The effect of the above condition is the lack of compliance with grant reporting requirements. No questioned costs result as amounts reported are less than amounts recorded in the general ledger.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sixto Igisomar, Acting Secretary, Department of Commerce

Corrective Action: We agree to the cause and will ensure timely reconciliation between the DOF and LCO. During the closing of the US Census, files were being transferred to the Department of Commerce and all US Census employees with knowledge of the specific files were not available.

Finding No.:	2010-24, Continued
Federal Agency:	U.S. Department of Commerce
CFDA Program:	11.YA132309CN0062 2010 Census
Contract Number:	YA132309CN0062
Area:	Reporting
Questioned Costs:	$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

We accept the recommendation that procedures be strengthened to maintain adequate documentation supporting program expenditures and proper transfer of file location knowledge to be carried out.

Proposed Completion Date: As this is a decennial program, we will use the recommendation provided to ensure proper documentations are readily available.

Finding No.: 2010-25
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
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 refunds from the date the refund is credited to the CNMI's account until the date the refund is debited from the CNMI's account for program purposes. The allowable clearance pattern is three days.

Further, a written policy should exist that includes, 1) those programs covered by the agreement, 2) the method of funding to be used, 3) the method used to calculate interest, and 4) procedures for determining check clearing patterns. In addition, compliance with Treasury-State agreements should be reviewed.

Condition: Of fifty-four Capital Improvement Projects (CIP) samples tested, forty-one items were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's account as follows:

Grant Number	APV #	Amount	Business Unit	CR Date	Date Check Cleared	Elapsed
CNMI-CIP-2008-5	835424	$ 150,000	5245	05/25/10	05/31/10	3
CNMI-CIP-2007-1	824260	$ 239,621	5611	01/20/10	02/01/10	9
CNMI-CIP-2007-1	826983	$ 138,123	5611	02/26/10	03/12/10	11
CNMI-CIP-2007-1	832022	$ 255,491	5611	04/22/10	04/30/10	5
CNMI-CIP-2009-1	837552	$ 126,636	5632	07/26/10	08/11/10	13
CNMI-CIP-2009-2	832024	$ 117,199	5636	04/22/10	04/30/10	5
CNMI-CIP-2009-2	834406	$ 139,854	5636	05/18/10	05/24/10	3
CNMI-CIP-2009-2	837228	$ 167,394	5636	06/21/10	06/30/10	6
CNMI-CIP-2009-2	853278	$ 191,997	5636	07/23/10	08/18/10	23
CNMI-CIP-2008-1	865165	$ 217,249	5126	08/27/10	09/01/10	2
CNMI-CIP-2009-2	866276	$ 351,497	5636	08/27/10	09/13/10	14
CNMI-CIP-2006-1	835867	$ 15,038	5222	06/02/10	06/09/10	4
CNMI-CIP-2007-1	833228	$ (2,470)	5617	05/06/10	05/17/10	8
CNMI-CIP-2008-4	833543	$ 4,300	5628	05/05/10	05/19/10	11
CNMI-CIP-2006-1	821345	$ 25,133	5222	12/22/09	01/25/10	31
CNMI-Water/Wastewater-2006-1	823559	$ 40,000	5228	01/11/10	01/29/10	15
CNMI-Water/Wastewater-2006-1	827958	$ 21,275	5228	04/05/10	04/20/10	12
CNMI-Water/Wastewater-2009-1	837684	$ 70,000	5247	06/29/10	07/14/10	12
FY 1996-2002 Grant	822824	$ 74,590	5248	01/05/10	01/18/10	10
CNMI-DA-2009-1	825307	$ 4,837	5251	02/01/10	02/26/10	22
CNMI-CIP-2007-1	821682	$ 78,265	5611	12/29/09	01/15/10	14
CNMI-CIP-2007-1	816354	$ 25,133	5617	10/22/09	11/12/09	18
CNMI-CIP-2008-3	815026	$ 4,320	5626	10/09/09	10/15/09	3
CNMI-CIP-2008-3	826378	$ 23,447	5626	02/23/10	03/08/10	10
CNMI-CIP-2008-4	819154	$ 8,000	5628	11/17/09	12/04/09	14
CNMI-CIP-2008-4	826381	$ 8,000	5628	02/23/10	03/03/10	5
CNMI-CIP-2008-4	833776	$ 7,350	5628	05/06/10	05/12/10	3
CNMI-CIP-2009-1	819680	$ 11,844	5633	11/24/09	12/02/09	5
CNMI-CIP-2009-2	817570	$ 42,370	5636	11/02/09	11/25/09	20
CNMI-CIP-2009-2	820849	$ 46,866	5636	12/15/09	01/13/10	26
CNMI-CIP-2009-2	823998	$ 52,626	5636	01/20/10	02/01/10	9
CNMI-CIP-2009-2	826382	$ 55,892	5636	02/23/10	03/04/10	6
CNMI-CIP-2009-2	828641	$ 36,416	5636	03/16/10	04/09/10	21

Finding No.: 2010-25, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area: Cash Management
Questioned Costs: $-0-

Condition, Continued:

Grant Number	APV #	Amount	Business Unit	CR Date	Date Check Cleared	Elapsed
CNMI-CIP-2009-2	837217	26,988	5637	06/21/10	06/30/10	6
CNMI-CIP-2009-3	837012	6,048	5647	06/16/10	06/28/10	9
CNMI-CIP-2010-2	828643	18,025	5652	03/16/10	04/01/10	13
CNMI-CIP-2010-2	835866	4,320	5652	06/02/10	06/14/10	9
CNMI-CIP-2010-2	837875	26,430	5652	06/30/10	07/15/10	12
CNMI-CIP-2010-1	855799	8,000	5649	07/23/10	08/17/10	22
CNMI-CIP-2006-1	866296	37,040	5222	08/24/10	09/13/10	17
CNMI-CIP-2008-4	6214	2,885	5628	06/24/10	06/28/10	1

Cause: The cause of the above condition is the lack of procedures to determine that cash advanced from the grantor agency is timely disbursed in accordance with the CMIAA requirements.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. Interest earned on advances is $103 and an interest liability of $3 exists; however, no questioned costs result as the interest liability is below $10,000.

Recommendation: We recommend that the DOF comply 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 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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 and the improvement shown from the 2009 audit. The financial statement section of this audit (FY2010) shows receivables from Federal agencies of $6,992,659 for Federal grants as of September 30, 2010. We will document and review our procedures with appropriate staff to minimize the timing differences. 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.

Finding No.:	2010-25, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area:	Cash Management
Questioned Costs:	$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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

Proposed Completion Date: Ongoing

Auditor Response: Audit procedures are based on available information provided by the auditee. We were not provided with an overall analysis by the auditee that demonstrates adherence to the Average Clearance technique described in the TSA.

Finding No.: 2010-26
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Grant Number: Fiscal Years 1996 - 2010 Appropriations Act
Area: Equipment and Real Property Management
Questioned Costs: $-0-

Criteria: In accordance with applicable equipment and real property management requirements, a physical inventory of property must be taken and results reconciled with property records at least every two years.

The CNMI Property Management Policies and Procedures requires 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 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:

Account #	Equipment and Property Category	FY 2010	FY 2009	FY 2008
64080	Machinery, tools and equipment	$ 192,900	$ -	$ 73,480
64090	Computer system and equipment	13,605	4,980	-
64541	Medical equipment	-	210,569	-
64570	Office furniture and fixtures	28,662	119,376	144,484
		$ 235,167	$ 334,925	$ 217,964

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding maintenance of property records. No questioned cost is presented as we were unable to assess the overall cumulative monetary value of the deficiencies above.

Effect: The effect of the above condition is that the CNMI is not in compliance with applicable property standards.

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

Finding No.:	2010-26, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Grant Number:	Fiscal Years 1996 - 2010 Appropriations Act
Area:	Equipment and Real Property Management
Questioned Costs:	$-0-

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 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia C. 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 Office has extended the procedure for recording equipment and real property for all projects funded by the Program.

The Office of Capital Improvement has developed a format to record equipment purchases made with program funding. Reconciliation with the P&S listing will be performed on a semi-annual basis to ensure that all property purchased is accounted for. The assigned personnel for each Senatorial District shall be responsible for the recordation of all equipment purchased on a per project basis.

Proposed Completion Date: Immediately

Finding No.:	2010-27
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area:	Matching, Level of Effort, Earmarking
Questioned Costs:	$131,864

Criteria: Grant Number CNMI-CIP-2008-1 requires that federal funds be matched by local funds at 50%.

Condition: In analyzing the CNMI's accounting records and related CIP financial reports for one project (business unit # 5126), we noted a deficiency in matching requirements computed as follows:

Total expenditures	$ 338,458
Required matching ratio	50%
Required Non-federal Share	169,229
Total non-federal expenditures	(8,175)
Deficiency	161,054
Excess non-federal expenditure (BU # 5248)	(29,190)
	$ 131,864

Cause: The cause of the above condition is the lack of policies and procedures to comply with applicable matching requirements.

Effect: The effect of the above condition is noncompliance with grant matching requirements. This condition may also have cash management implications. As the federal share is higher than allowed, the excess of $131,864 is questioned.

Recommendation: We recommend that the DOF establish policies and procedures to comply with the 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 through 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Virginia C. Villagomez, CIP Administrator, Office of Capital Improvement, Office of the Governor

Corrective Action: We agree with this finding referencing BU #5248 amounting to $29,190; however, because the funding expired, the invoice was billed at 100% chargeable to the local matching share drawn down with PSS (PSS bond). Although the ratio for BU #5126 is also 50/50, the grantor agency allowed the liquidation of the federal share first before the local share due to the funds expiring.

Finding No.:	2010-27, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area:	Matching, Level of Effort, Earmarking
Questioned Costs:	$131,864

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

All the projects govern by a matching cost ratio (federal share) are either completed or expired; therefore, repeated findings will be reduced if not eliminated. To prevent similar findings from occurring, I agree that the DOF establish standard policies and procedures to comply with the matching criteria making it applicable to all programs that require a matching component.

Proposed Completion Date: Immediately

Finding No.: 2010-28
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area: Period of Availability of Federal Funds
Questioned Costs: $-0-

Criteria: Projects should be completed within allowable time frames.

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

Business Unit	Grant Number	Grant Expiration	Expenditure Incurred After Allowable Time Frame
5436	CNMI-INIT-2008-2	01/01/10	$ 17,158
5437	CNMI-INIT-2008-2	01/01/10	15,582
5438	CNMI-INIT-2008-2	01/01/10	50,237
			$ 82,977

Cause: The cause of the above condition is the lack of established policies and procedures to determine 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. No questioned cost result as no drawdown of federal funds occurred for the above items.

Recommendation: We recommend that the CNMI comply 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 through 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Edward Buckingham, Attorney General, Office of the Attorney General and Virginia C. Villagomez, CIP Administrator, Office of Capital Improvement, Office of the Governor

Corrective Action: We agree with this finding and that an audit adjustment will be necessary transferring expenditures made beyond the period of funding availability to the respective local account BU #1170 since the program funds were expended by the Office of the Attorney General.

To comply with the period of availability requirements, the Office of Capital Improvement will ensure that the period of performance for all grants is included whenever a request for the establishment of a business unit is initiated to the DOF. A memorandum will be issued to the Secretary of Finance requesting that all programs require the period of performance to be reflected in the financial management system to ensure that expenditures will only be incurred within the period of availability of the funds.

Proposed Completion Date: Immediately

Finding No.: 2010-29
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area: Procurement and Suspension and Debarment
Questioned Costs: $31,003

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 forty-eight nonpayroll expenditures tested, aggregating $3,396,621, the following were noted:

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

Grant Number	Obligating Document #	Purchase Order Amount	APV #	BU	General Ledger Date	Expenditure Tested	Questioned Costs
CIP-CNMI-2005-1	515100 OP	$ 2,500	827473 PV	5175	02/23/10	$ 749	$ 1,049
CNMI-CIP-2007-1	517197 OP	$ 2,500	833228 PV	5617	04/27/10	$ 2,470	2,470
							$ 3,519

2. We noted that subsequent change orders for one item (document no. 815026 OV) were procured using expedited procurement; however, factors to justify the method of procurement were not evident.

Grant Number	Obligating Document #	Contract Amount	APV #	BU	General Ledger Date	Expenditure Tested	Questioned Costs
CNMI-CIP-2008-3	355 OS	$ 241,920	815026	5626	10/05/09	$ 4,320	$ 23,184

3. Evaluation forms to justify the selection of professional services for one contract (document no. 511633 OP) under Grant Number CNMI-CIP-2008-4 with expenditures of $4,300 were not provided.

Finding No.:	2010-29, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$31,003

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 $31,003.

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

Prior Year Status: The lack of compliance with procurement regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kay Delafield, Water Task Force (WTF) Legal Advisor

Corrective Action:

Condition 1: WTF will ensure that purchase orders are either less than $2,500 or if over $2,500 that the necessary quotations are obtained and documented.

Condition 2: WTF will not use the "expedited procurement" process except in compelling circumstances (we have not used "expedited procurement" in several years). WTF will process any change orders according to the procurement regulations.

Condition 3: WTF will ensure that either a proper sole source procurement or any competitive procurement is properly documented and that the documentation is maintained for future examination.

Proposed Completion Date:

Condition 1: WTF has already informed all staff of the need to limit or document small purchases and of the proper interpretation of the threshold purchase amounts.

Condition 2: WTF has adopted the corrective action.

Condition 3: This is an ongoing effort without a completion date.

Finding No.: 2010-30
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
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 nineteen CIP contracts, nine did not contain provisions for federal access to contractor records:

Grant Number	Contract No.
CNMI-CIP-2008-3	355 OS
FY 2004 - $467K Grant	468 OS
CNMI-CIP-2008-3	474 OS
CIP-CNMI-2006-1	481 OS
CNMI-CIP-2008-4	491 OS
CNMI-CIP-2008-4	492 OS
CNMI-CIP-2009-2	503 OS
CNMI-CIP-2009-1	506 OS
CNMI-CIP-2010-2	516 OS

Cause: The cause of the above condition is the lack of procedures to include required contract clauses.

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

Recommendation: We recommend that the CNMI comply with all applicable laws relating to contracts funded by federal awards.

Prior Year Status: The lack of compliance with applicable regulations relating to contract provisions was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2009.

Auditee Response and Corrective Action Plan:

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

Corrective Action: Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. P&S should have all pertinent documents in file. A checklist has been developed to be reviewed on contract completion to ensure all related documents are included. The Attorney General's office will review the general terms and conditions that should be part of each contract to ensure these requirements are included.

Proposed Completion Date: FY2012

Finding No.:	2010-31
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area:	Program Income
Questioned Costs:	$664,975

Criteria: Pursuant to applicable federal requirements, program income shall be deducted from outlays which may be both Federal and non-Federal as described below, unless the Federal agency regulations or the grant agreement specify another alternative (or a combination of the alternatives). In specifying alternatives, the Federal agency may distinguish between income earned by the grantee and income earned by subgrantees and between the sources, kinds, or amounts of income. When Federal agencies authorize the alternatives, program income in excess of any limits stipulated shall also be deducted from outlays. Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project. When authorized, program income may be added to the funds committed to the grant agreement by the Federal agency and the grantee. The program income shall be used for the purposes and under the conditions of the grant agreement. When authorized, program income may be used to meet the cost sharing or matching requirement of the grant agreement. The amount of the Federal grant award remains the same.

Condition: On July 21, 2010, CNMI received settlement funds of $1,329,951 from a contractor as settlement for the defects on the design of one CIP project, which was 50% federally funded. CNMI had used the funds for locally funded expenditures as of September 30, 2010 and did not communicate the receipt of settlement funds to the federal grantor agency for proper use.

Cause: The cause of the above condition is lack of procedures on proper treatment of program income and lack of awareness on applicable program income requirements.

Effect: The effect of the above condition is noncompliance with program income requirements and questioned cost of $664,975, which is equivalent to 50% federal share.

Recommendation: We recommend that CNMI comply with applicable program income requirements. We further recommend that CNMI communicate any funds received related to federally funded projects to the federal grantor agency and obtain authorization on the proper use of program income funds.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: CNMI will contact the grantor agency in regard to this issue. CNMI feels the funds were properly utilized in accordance with Public law 17-6(2)(d) and the Governor's emergency declaration for the Commonwealth Health Center.

Proposed Completion Date: FY2012

Finding No.: 2010-32
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
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.

- Determining 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 determining 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: Of $3,396,621 in nonpayroll expenditures tested under the Fiscal Years 1996-2010 Appropriations Act, $1,207,089 related to subrecipient expenditures. The following were noted:

1. Subrecipient agreements were not executed for pass through grants:

Grant Number	Business Unit
CNMI-Water/Wastewater-2006-1	5228
CNMI-Water/Wastewater-2009-1	5247
FY 1996-2002 Grant	5248
CNMI-CIP-2007-1	5611
CNMI-CIP-2009-1	5632
CNMI-CIP-2008-5	5245
CNMI-Water/Wastewater-2010-1	5657

2. For one subrecipient, narrative reports evidencing that the CNMI obtained and reviewed the project status for the following three projects administered by the subrecipient were not provided.

Finding No.: 2010-32, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area: Subrecipient Monitoring
Questioned Costs: $-0-

Condition, Continued:

Grant Number	Business Unit
CNMI-Water/Wastewater-2006-1	5228
CNMI-Water/Wastewater-2009-1	5247
CNMI-CIP-2007-1	5611

3. For business unit # 5611 under Grant Number CNMI-CIP-2007-1, certification from the subrecipient that procurement was in accordance with applicable regulations was not evident.

Cause: The cause of the above condition is failure to enforce 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 as the related subrecipient costs were allowable under the grant award terms and conditions.

Recommendation: We recommend the CNMI comply with subrecipient monitoring requirements.

Prior Year Status: Noncompliance with subrecipient monitoring requirements was reported as a finding in the Single Audit of the CNMI for fiscal year 2009.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the finding and the Office of Capital Improvement will comply with the recommendations made by the auditor.

To comply with the subrecipient monitoring requirements, the Office of Capital Improvement will develop subrecipient monitoring procedures including a checklist and a subrecipient monitoring agreement to be implemented for all program pass through grants that are affected by this requirement. Upon acceptance of the agreement, the Office of Capital Improvement will conduct monitoring pursuant to the established policies and procedures.

Proposed Completion Date: November 1, 2011

Finding No.:	2010-33
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Area:	Special Tests and Provisions
Questioned Costs:	$97,204

Criteria: Grant terms and conditions specified under grant awards/agreements should be complied with. The appointment of personnel and or consultants under Grant Number CNMI-Water/Wastewater 2006-1 is subject to prior written approval by the U.S. Department of the Interior, Office of Insular Affairs (OIA) and the U.S. Environmental Protection Agency (EPA; EPA is specified in the grant award).

Condition: Of twenty-four CIP projects tested, written approval from OIA for the appointment of personnel/consultant for two contracts (contract nos. 471-OS and 466-OS) was not provided.

Cause: The cause of the above condition is the lack of written approval from the grantor.

Effect: The effect of the above condition is noncompliance with special tests and provisions requirements and questioned costs of $97,204.

Recommendation: We recommend that the CNMI obtain requisite approvals.

Prior Year Status: The lack of written approval from the grantor was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kathryn Delafield, Legal Advisor CNMI Water Task Force

Corrective Action: In the future, formal written approval will be obtained in advance of entering into a contract for services for employees or consultants. We do understand that formal approval is required and will ensure that is obtained with all future contracts.

Proposed Completion Date: Full compliance effective immediately.

Finding No.:	2010-34
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.205 Highway, Planning and Construction
Grant Numbers:	CM-NH-0031 (012), CM-NH-0031 (013), CM-NH-0202 (001), CM-NH-0201 (001), CM-NH-0101 (001) and CM-NH-0031 (015)
Area:	Equipment and Real Property Management
Questioned Costs:	$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a physical inventory of property must be taken and results reconciled with property records at least every two years.

The CNMI Property Management Policies and Procedures requires the 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: A physical inventory of property has not been performed for the past three years. We could not verify property records provided by the Department of Public Works (DPW) because P&S is unable to provide official property records acquired from Program grants. No fixed assets additions were noted during the year. P&S was not aware of business units where fixed assets were recorded for this Program; hence, we could not quantify acquisitions for the past three years.

Cause: The cause of the above condition is the lack of controls to comply with equipment and real property management requirements.

Effect: The effect of the above condition is noncompliance with equipment and real property management requirements. No questioned costs result due to our inability to assess the overall cumulative monetary value of the deficiencies above.

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Martin Sablan, Secretary of DPW and Herman S. Sablan, Director of P&S

Corrective Action: DPW will update and reconcile its property records with P&S for items acquired under CFDA 20.205 Highway grants. DPW has been provided with a copy of the CNMI Property Management Policies and Procedures to use as a guideline for management and accountability of acquired property. P&S will compile a listing of the assets acquired under these grants and work with DPW to reconcile the records.

Proposed Completion Date: FY2012

Finding No.:	2010-35
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.205 Highway, Planning and Construction
Grant Numbers:	CM-NH-0202 (001), CM-NH-0101 (001), CM-NH-0201 (001), CM-NH-0031 (013), CM-NH-0031 (012) and CM-NH-0031 (015)
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$-0-

Criteria: Grantee and subgrantee contracts must include provision for federal access to contractor records.

Condition: Of twelve CIP contracts, we noted that ten contracts (nos. 487609 OC, 495685 OC, 503660 OC, 508828 OC, 416052 OC, 485087 OC, 498959 OC, 504677 OC, 504887 OC and 511935 OC) did not contain provisions for federal access to contractor's records.

Cause: The cause of the above condition is the lack of procedures to include required contract clauses.

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

Recommendation: We recommend that the CNMI comply with the criteria.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Martin Sablan, Secretary of DPW and Herman S. Sablan, Director of P&S

Corrective Action: Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. P&S should have all pertinent documents in file. A checklist has been developed to be reviewed on contract completion to ensure all related documents are included. The Attorney General's office will review the general terms and conditions that should be part of each contract to ensure these requirements are included.

Proposed Completion Date: FY2012

Finding No.: 2010-36
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway, Planning and Construction
Grant Numbers: CM-NH-0202 (001) and CM-NH-0101 (001)
Area: Special Tests and Provisions
Questioned Costs: $585,246

Criteria: The awarding agency must approve extensions affecting project costs or the amount of liquidated damages

Condition: Of twenty construction expenditures tested totaling $3,494,094 of a total population of $3,677,680, project extension approval was not provided for expenditures incurred after the agreed completion date as follows:

Contract Number	APV No.	Project	Completion Date	Billing Period	Expenditure Amount
495685-OC	824003	Construction of Route 101, Rota	04/13/09	September 2009	$ 225,580
495685-OC	819578	Construction of Route 101, Rota	04/13/09	May to August 2009	47,722
487609-OC	819158	Reconstruction of Route 202, Tinian	06/30/09	June to July 2009	114,280
487609-OC	820204	Reconstruction of Route 202, Tinian	06/30/09	August 2009	197,664
					$ 585,246

Cause: The cause of the above condition is failure to obtain project extension approval.

Effect: The effect of the above condition is noncompliance with applicable special tests and provision requirements and questioned costs of $585,246.

Recommendation: We recommend that DPW obtain and document project extension approvals.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Martin Sablan, Secretary of DPW

Corrective Action: According to the auditors, contractors were billed and paid for work after the contract completion date (i.e. 190 days after notice to proceed). Internal memos support the reasons for the additional time frame to complete the work but no grantor approval was provided. However, if the vendors were paid, the grantor approved the payments based on the documents provided to them which is essentially grantor approval. We will review our records to determine if additional documentation is available.

Proposed Completion Date: FY2012

Finding No.:	2010-37
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.205 Highway, Planning and Construction
Grant Numbers:	CM-NH-0031 (012) and CM-NH-0031 (015)
Area:	Special Tests and Provisions
Questioned Costs:	$105,800

Criteria: Project approval and authorization to proceed is required before costs are incurred for all construction projects. Construction projects administered under standard procedures cannot be advertised nor can force account work commence until the awarding agency: (1) approves the plans, specifications, and estimates; and (2) authorizes the grantee to advertise for bids or approves the force account work.

Condition: Of twelve non-construction expenditures tested totaling $369,435 of a total population of $3,677,680, the following were noted:

- Project approvals for plans, specifications, and estimates and authorization to advertise for bids was not provided for one expenditure (APV no. 837980; contract no. 416052 OC) amounting to $61,736. Total expenditures incurred under this contract amounted to $64,921 for the year ended September 30, 2010.

- One expenditure (APV no. 826814; contract no. 511935) for $40,879 was incurred on September 16, 2009; however, the authorization to proceed was obtained on January 14, 2010.

Cause: The cause of the above condition is the lack of procedures to obtain and file necessary approvals.

Effect: The effect of the above condition is noncompliance with applicable special tests and provision requirements and questioned costs of $105,800.

Recommendation: We recommend that DPW obtain and file requisite approvals before costs are incurred.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Martin Sablan, Secretary of DPW and Herman S. Sablan, Director of P&S

Corrective Action:

Item 1 - Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. P&S should have all pertinent documents in file. A checklist has been developed to be reviewed on contract completion to ensure all related documents are included.

Item 2 - We will review this contract and determine the reason for the expenditures being incurred prior to the notice to proceed.

Proposed Completion Date: FY2012

Finding No.: 2010-38
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Numbers: DE-EE000220 and DE-FG26-05R021611
Area: Cash Management
Questioned Costs: $-0-

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of federal funds and the payout of funds for program costs should be minimized.

Condition: For eleven (or 61%) of eighteen transactions tested, the time elapsed between the receipt of federal funds and the clearance of disbursed checks exceeded three days, ranging from two to one hundred sixty-one days as follows:

Document No.	Amount	Clearance Date	Cash Receipt Date	Days Elapsed After the Allowable Clearance Pattern
965758	$ 141,454	10/01/10	09/14/10	10
965761	$ 1,775,000	09/30/10	09/14/10	9
965762	$ 218,197	10/05/10	09/14/10	12
965764	$ 269,750	10/01/10	09/14/10	10
966907	$ 302,750	09/30/10	09/14/10	9
966914	$ 599,468	10/04/10	09/14/10	11
829244	$ 16,000	04/02/10	03/26/10	2
856816	$ 16,284	08/17/10	08/05/10	5
859543	$ 10,752	08/20/10	08/05/10	8
553729	$ 2,316	09/30/10	02/24/10	161
227027	$ 5,992	05/06/10	12/11/09	103

Cause: The cause of the above condition is the lack of monitoring procedures that cash advances from the grantor agency are timely disbursed.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. Interest earned on advances is $134, and an interest liability of $34 exists; however, no questioned costs result from this condition as the projected interest liability is less than $10,000.

Recommendation: We recommend that the CNMI establish internal controls over cash management to comply with federal requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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 and the improvement shown from the 2009 audit. The financial statement section of this audit (FY2010) shows receivables from Federal agencies of $6,992,659 for Federal grants as of September 30, 2010. We will document and review our procedures with appropriate staff to minimize the timing differences. 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: Ongoing

Finding No.:	2010-38, Continued
Federal Agency:	U.S. Department of Energy
CFDA Program:	81.041 State Energy Program
Grant Numbers:	DE-EE000220 and DE-FG26-05R021611
Area:	Cash Management
Questioned Costs:	$-0-

Auditor Response: Audit procedures are based on available information provided by the auditee. We were not provided with an overall analysis by the auditee that demonstrates adherence to the Average Clearance technique described in the TSA.

Finding No.:	2010-39
Federal Agency:	U.S. Department of Energy
CFDA Program:	81.041 State Energy Program
Grant Numbers:	DE-EE000220 and DE-FG26-05R021611
Area:	Equipment and Real Property Management
Questioned Costs:	$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a physical inventory of property must be taken and results reconciled with property records at least every two years.

The CNMI Property Management Policies and Procedures require 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: Tests of equipment and real property noted the following:

- It was represented that an inventory of fixed assets was performed during fiscal year 2010; however, documentation that a complete physical inventory of equipment and property and a reconciliation with P&S records have been performed over the last two fiscal years could not be provided.

- Property records maintained by the Program office did not have information as to percentage of federal participation, source, location and who holds title. Further, of fifty-four items listed, seventeen did not have cost information.

We were not able to assess the overall cumulative monetary value of the deficiencies above; however, the total capital outlays listed in the property records available amounted to $23,673.

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

Effect: The effect of the above condition is that the CNMI is not in compliance with applicable property standards. No questioned cost is presented due to our inability to assess the cumulative monetary value of the deficiencies above.

Recommendation: We recommend that the CNMI maintain records of property and equipment acquired with grant funds and comply with applicable rules and regulations.

Finding No.:	2010-39, Continued
Federal Agency:	U.S. Department of Energy
CFDA Program:	81.041 State Energy Program
Grant Numbers:	DE-EE000220 and DE-FG26-05R021611
Area:	Equipment and Real Property Management
Questioned Costs:	$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Thelma B. Inos, Director, Department of Public Works, Energy Division

Corrective Action: The Division of Energy (DOE) provided complete physical inventory of equipment and property to Deloitte & Touche from P&S last inventory dated December 16, 2009. DOE agrees that subsequent inventory reconciliation for the periods thereafter must be conducted by P&S, which we have requested by memorandum. DOE further agrees that our documentation of physical inventory of equipment and property requires information as to percentage of federal participation, source, location and who holds the title(s). In response, the entire inventory of equipment and property are located at the DOE Office and were purchased with 100% federal funds from the State Energy Program funds and DOE holds the title for all equipment and property.

Proposed Completion Date: FY2011

Auditee Response: The inventory of equipment and property provided was incomplete. Documentation that a physical inventory took place (count sheets, inventory instructions memorandum, date of the count, reconciliations of count results, etc.) was not provided.

Finding No.: 2010-40
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Number: DE-EE000220
Area: Procurement and Suspension and Debarment
Questioned Costs: $712,076

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:

- 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.

- All government procurement shall be awarded by competitive sealed bidding, except for circumstances wherein other procurement method is allowed as provided for in the applicable subsection of the procurement regulations.

In addition, Sections 1605 of the American Recovery and Reinvestment Act of 2009 (ARRA) prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States.

Condition: Of fifteen nonpayroll expenditures tested aggregating $3,655,996, the following were noted:

1. Only one price quotation was obtained for one expense of $2,985 (APV # 868258) which qualifies under small purchase procedures.

2. For one contract (# 517353-OC), criteria used in the detailed evaluation reports are not consistent with the criteria in the overall vendor evaluation. Further, there was no documentation supporting the evaluation and merit for two ARRA requirements included in the overall vendor evaluation. Details are as follows:

General Ledger Date	APV No.	General Ledger Amount
06/18/10	837603	$ 8,142
07/20/10	856815	12,213
07/20/10	856816	16,284
07/20/10	856817	16,284
07/20/10	856819	16,284
09/24/10	965991	10,483
		$ 79,690

3. For three contracts, certification of compliance with Buy-American requirements was included in the bids; however, documentation of the CNMI's verification of vendor's compliance and/or approved waiver request could not be provided as follows:

Finding No.: 2010-40, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Number: DE-EE000220
Area: Procurement and Suspension and Debarment
Questioned Costs: $712,076

Condition, Continued:

Contract No.	GL Date	APV No.	GL Amount
522810-OC	09/23/10	965758	$ 141,454
523546-OC	09/23/10	965762	218,197
523533-OC	09/23/10	965764	269,750
		Total	$ 629,401

Cause: The cause of the above condition is the lack of policies and procedures to comply with procurement regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of $712,076.

Recommendation: We recommend that the CNMI comply with applicable procurement regulations and the Buy American Act.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Thelma B. Inos, Director, Department of Public Works, Energy Division

Corrective Action:

1. Price quotation was provided for travel authorization no. 288077-TA (APV No. 868258). At the time of the processing of the TA, DOE was not aware of the three quotes needed per travel. Since then, we have been in full compliance with this requirement per travel. However, not all travel agents provide quotation unless they are ticketing the traveler.

2. Copies of the documentation of vendor evaluations and selections were provided for contract #517353-OC with APV nos. 837603, 856815, 856816, 856817, 856819 and 965991. Upon further review of the documentation, we agree with the inconsistency of documentation and lack of supporting evaluation and merit for the two ARRA requirements included in the overall vendor evaluations. We have communicated this discrepancy to the Compliance Officer for the CNMI ARRA State Lead Office and will provide an updated response to this finding upon his reply.

3. Documentation relevant to compliance with the Buy-American requirements was provided for contract numbers 522810-OC, 523546-OC and 523533-OC. Please be advised that as stated in the documentation for contract nos. 523546-OC and 523533-OC, the Buy-American certification documentation is forthcoming from the manufacturer. DOE will provide documentation to P&S and the auditors upon receipt of this documentation to complete the response to this itemized finding.

Finding No.:	2010-40, Continued
Federal Agency:	U.S. Department of Energy
CFDA Program:	81.041 State Energy Program
Grant Number:	DE-EE000220
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$712,076

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: FY2012

Auditor Response: As noted in condition #3, the bidding documents included certification of compliance with the Buy-American requirements; however, copies of grantor's approval of pending waiver request or documentation that the CNMI verified contractors' compliance was not provided.

Finding No.:	2010-41
Federal Agency:	U.S. Department of Energy
CFDA Program:	81.041 State Energy Program
Grant Number:	DE-EE000220
Area:	Reporting
Questioned Costs:	$-0-

Criteria: Total program costs/expenses reported to the grantor should correspond to amounts reported in the underlying books and records. Specifically, Section 1512 of the ARRA Act requires the recipient of recovery funds to submit a report to the agency.

Condition: Total expenditures reported to the grantor per the 1512 ARRA Report for the period ended September 30, 2010 amounted to $3,848,753, while actual expenditures per the general ledger amounted to $4,076,897.

Cause: The cause of the above condition is the lack of reconciliation between the ARRA office and the DOF to accurately report program expenditures.

Effect: The effect of the above condition is the lack of compliance with grant reporting requirements; however no questioned costs result since the general ledger amount was less than the amount reported.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Michael Ada, CNMI ARRA State Lead

Corrective Action: DOE responds that the CNMI has consistently reported that the timing issues between the CNMI FMS and the 1512 reports are very sensitive. As the reporting period closed on September 30, 2010, the CNMI may have invoiced the federal program, but the drawdown did not reflect in the U.S. Department of Energy FMS until after the close of the quarter. This is common throughout the ARRA programs where the CNMI inserts the fund amount drawdown against the CNMI's FMS, but the drawdown is not reflected in the federal payment system until a couple of days after. After the close of the reporting period, grantors will be notified of the changes that need to be made in the 1512 reports, which generally reflect an adjustment to the total amount of ARRA funds received. Please be advised that the CNMI ARRA Office has been responsible for reporting on the 1512 report and DOE does not enter the financial data directly.

Proposed Completion Date: FY 2011

Finding No.: 2010-42
Federal Agency: U.S. Department of Education
CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers: S394A090054 and S397A090054
Area: Activities Allowed or Unallowed/Allowable Costs/Cost Principles
Questioned Costs: $655,988

Criteria: An effective system of internal control includes policies and procedures for expenditures to be authorized, supported and approved prior to incurrence.

Condition: Of sixty-nine expenditures tested totaling $11,370,584 of a total population of $15,974,138, the following were noted:

1. Documents supporting the expenditure were not provided as follows:

General Ledger Date	Document No.	General Ledger Amount
01/26/10	560781	$ 6,739
02/16/10	8077	31,571
		$ 38,310

2. Pre-award expenditures were incurred prior to the approved pre-award period as follows:

Invoice Date	Treatment Authorization No.	General Ledger Amount
01/23/09	A264837	$ 18,147
01/23/09	A258323	5,775
01/23/09	A275723	17,346
01/23/09	A988069	14,699
02/20/09	A278116	35,000
02/06/09	A276913	79,920
03/16/09	A277783	44,215
11/04/08	A276818	4,646
		$ 219,748

3. Related treatment authorization forms were not signed by the Secretary of Health and there was no evidence that medical treatment costs were approved prior to incurrence as follows:

Invoice Date	Treatment Authorization No.	General Ledger Amount
01/23/09	A264837	$ 18,147
04/14/09	A279138	15,814
07/06/09	A280537	27,623
06/22/09	A068413	20,873
		82,457
	Less costs questioned above	(18,147)
	Questioned costs this finding	$ 64,310

Finding No.:	2010-42, Continued
Federal Agency:	U.S. Department of Education
CFDA Program:	84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers:	S394A090054 and S397A090054
Area:	Activities Allowed or Unallowed/Allowable Costs/Cost Principles
Questioned Costs:	$655,988

Condition, Continued:

4. A drawdown request made by one subrecipient (document no. JE 168547) of $333,620 was not supported by equivalent documents of the subrecipient's expenditures.

Cause: The cause of the above conditions is failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to submit all supporting documents for complete filing.

Effect: The effect of the above conditions is the possible use of federal funds for unsupported, unauthorized, and unallowed expenditures and questioned costs of $655,988.

Recommendation: We recommend that the CNMI obtain all necessary approvals/authorizations prior to incurrence/payment of expenditures and file all supporting documents.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: For item 1, we need to provide documentation for $38,310. Item 4 is an NMC drawdown under the education portion of the grant. The drawdown request should be in the ARRA folder.

Proposed Completion Date: Ongoing

Auditor Response: Documentation supporting the expenditures detailed in item 1 and the drawdown request in item 4 were not provided.

Finding No.: 2010-43
Federal Agency: U.S. Department of Education
CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers: S394A090054 and S397A090054
Area: Eligibility
Questioned Costs: $564,558

Criteria: Section IV of the Medical Referral Services Rules and Regulations (MRSRR) states that patients should meet criteria set forth in Sections 4.1 and 4.2 to be eligible for consideration for medical referral through the medical referral program.

Condition: Eligibility folders for thirty patients were not available for examination; thus, we were not able to determine eligibility of the following:

General Ledger Date	Treatment Authorization No.	Document Number	Amount
03/10/09	A264837	553251	$ 18,147
03/10/09	A258323	553251	5,775
03/10/09	A275723	553251	17,346
03/10/09	A988069	553251	14,699
03/23/09	A278116	553238	35,000
03/23/09	A276913	553238	79,920
04/16/09	A277783	553238	44,215
06/15/09	A279001	553238	21,526
06/15/09	A278902	553238	25,253
06/15/09	A279138	553238	15,814
07/01/09	A279778	553238	22,207
07/01/09	A279248	553238	6,680
07/01/09	A279453	553238	33,686
07/23/09	A280316	553280	237
08/03/09	A280573	553238	3,267
08/03/09	A280537	553238	27,623
08/03/09	A068413	553238	20,873
08/03/09	A280532	553238	18,506
08/03/09	A280521	553238	33,200
08/03/09	A279453	553238	13,936
08/06/09	A276818	553251	4,646
08/13/09	A277776	553238	106,329
09/10/09	cannot determine	553280	45,500
09/18/09	cannot determine	553280	45,500
09/21/09	A280808	553263	1,957
09/30/09	cannot determine	553280	45,500
10/01/09	cannot determine	554191	1,246
10/06/09	cannot determine	554190	50,000
10/06/09	cannot determine	554190	24,528
12/31/09	cannot determine	554186	65,500
			848,616
	Less costs questioned in Finding No. 2010-42, conditions 2 and 3		(284,058)
		Total	$ 564,558

Cause: The cause of the above condition is the lack of adequate procedures to determine that eligible recipients receive medical assistance and benefits.

Finding No.:	2010-43, Continued
Federal Agency:	U.S. Department of Education
CFDA Program:	84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers:	S394A090054 and S397A090054
Area:	Eligibility
Questioned Costs:	$564,558

Effect: The effect of the above condition is noncompliance with eligibility requirements pursuant to Section IV of the MRSRR, possible use of federal funds for ineligible individuals and questioned costs of $564,558.

Recommendation: We recommend that the CNMI establish procedures to determine that only eligible individuals receive medical assistance and benefits.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Ronald Sablan, Medical Referral Services Manager

Corrective Action: Policies and procedures will be developed and implemented to address the determination of eligible individuals who will receive medical assistance and benefits from the Medical Referral Program.

Proposed Completion Date: October 31, 2011

Finding No.:	2010-44
Federal Agency:	U.S. Department of Education
CFDA Program:	84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers:	S394A090054 and S397A090054
Area:	Subrecipient Monitoring
Questioned Costs:	$-0-

Criteria: Pass-through entities must establish and implement subrecipient monitoring policies and procedures. Further, in accordance with applicable subrecipient monitoring requirements, 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.

- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Condition: Of $11,370,584 in nonpayroll expenditures tested, the following were noted:

1. $333,620 related to one subrecipient's expenditures for which a subrecipient agreement was not executed.

2. $7,325,488 related to two subrecipients' drawdown requests to the CNMI for expenditures incurred under the Program; however, the drawdown requests were not supported by invoices, contracts or equivalent documents supporting the expenditures.

Cause: The cause of the above condition is the 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 and questioned costs. Questioned costs related to condition 1 are already included at Finding No. 2010-41. No questioned costs result for condition 2 since there are separate OMB A-133 reports with no questioned costs.

Recommendation: We recommend the CNMI comply with subrecipient monitoring requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: Item 1 is NMC; item 2 is probably PSS but need to verify. The ARRA office or contractor should have the agreements with PSS and NMC.

Proposed Completion Date: Ongoing

Finding No.:	2010-44, Continued
Federal Agency:	U.S. Department of Education
CFDA Program:	84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers:	S394A090054 and S397A090054
Area:	Subrecipient Monitoring
Questioned Costs:	$-0-

Auditor Response: We were not provided with the agreement with NMC by the ARRA office.

Finding No.: 2010-45
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1005CQ5MAP, 05-1005CQ5ADM, 05-1005CQ1935, 05-1005CQARRA and 05-1005CQPRTD
Area: Allowable Costs/Cost Principles
Questioned Costs: $2,750

Criteria: In accordance with applicable allowable costs/cost principle requirements, recorded expenditures should be authorized and approved prior to incurrence. Additionally, 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 the propriety of rates by service providers.

Condition: Of total program expenditures of $7,070,511 for the year ended September 30, 2010, professional services of $6,615,433 and other program expenses of $328,047 were tested. Of sixty-two items tested, forty-one items totaling $921,637 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.

Additionally for some items, the lack of complete rate verification and review of billing accuracy resulted in incorrect rates paid:

a. For seven prescription and pharmacy claims totaling $208,719, the rate charged and paid by Medicaid was higher than the Estimated Acquisition Cost (EAC) as agreed in the service provider agreement as follows:

General Ledger Date	General Ledger Account	APV No.	Amount Paid	EAC	Excess
06/17/10	62060	837488	$ 9,207	$ 8,963	$ 244
03/08/10	62060	828315	$ 878	$ 786	92
01/28/10	62060	825810	$ 1,146	$ 1,006	140
04/20/10	62060	832407	$ 1,291	$ 1,153	138
05/26/10	62060	835869	$ 575	$ 505	70
05/26/10	62060	835875	$ 465	$ 431	34
02/01/10	62060	826036	$ 355	$ 349	6
				Total	$ 724
				Federal share (50%)	$ 362

b. For five expenditures totaling $174,165, rates could not be verified as the services were not included in the established Medicare rates maintained by Medicaid. We were informed that payment is made based on whatever rates are charged the program. Details are as follows:

General Ledger Date	General Ledger Account	APV No.	General Ledger Amount	Amount Tested
01/25/10	62060	825234	$ 49,138	$ 3,801
04/01/10	62060	830615	$ 42,777	80
04/01/10	62060	830608	$ 34,926	360
06/11/10	62060	837181	$ 26,147	185
04/01/10	62060	830614	$ 21,177	350
			Total	$ 4,776
			Federal share (50%)	$ 2,388

Finding No.:	2010-45, Continued
Federal Agency:	U.S. Department of Health and Human Services
CFDA Program:	93.778 Medical Assistance Program
Grant Numbers:	05-1005CQ5MAP, 05-1005CQ5ADM, 05-1005CQ1935, 05-1005CQARRA and 05-1005CQPRTD
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$2,750

Cause: The cause of the above condition is the failure to obtain appropriate approvals and authorizations prior to incurring expenditures and lack of clearly defined and communicated procedures for verification and review of billings prior to reimbursement.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principle requirements, possible use of federal funds for unauthorized and unallowed expenditures, a control weakness over allowable activities and costs reimbursable under the Medicaid Program and possible misuse of federal expenditures and questioned costs of $2,750.

Recommendation: We recommend that the CNMI Medicaid Office and the DOF obtain all necessary approvals/authorizations prior to incurrence/payment of expenditures. We recommend that control procedures be clearly defined and communicated over verification of services charged to the Medicaid Program and review of accuracy of billings be made prior to payment.

Prior Year Status: Failure to obtain appropriate approvals and authorizations prior to incurring expenditures was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 through 2009. 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 2009.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

a. We disagree with the finding. The estimated acquisition cost (EAC) is not part of our contracted reimbursement rate with the providers. Our rates are based on Average Wholesale Price (AWP). In the United States the AWP is a prescription drug term referring to the average price at which drugs are purchased at the wholesale level. The term was originally intended to convey real pricing information to third-party payers, including government prescription drug programs. Commercial publishers of drug pricing data such as Red Book and First DataBank have published the AWP data since at least 1970. According to Red Book, published by Thomson Medical Economics, the pricing information is "based on data obtained from manufacturers, distributors, and other suppliers". Current contracted reimbursement rates for pharmaceutical suppliers for the CNMI Medicaid program utilize this rate within its reimbursement formula. The only exception to this is for certain generic drugs that are listed under the Federal Upper Limit (FUL) levels. The FUL was originally formed to keep generic drug prices low, especially for drug programs that are federally funded. This list is maintained under the Code of Federal Regulations by the Centers for Medicare and Medicaid Services. All insurance companies, through Pharmacy Benefit Managers for all CNMI pharmaceutical providers (Brabu, PHI and FHP) are reimbursed based on some type of formula using the AWP.

Finding No.:	2010-45, Continued
Federal Agency:	U.S. Department of Health and Human Services
CFDA Program:	93.778 Medical Assistance Program
Grant Numbers:	05-1005CQ5MAP, 05-1005CQ5ADM, 05-1005CQ1935, 05-1005CQARRA and 05-1005CQPRTD
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$2,750

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

b. We disagree with the finding. We have a listing of Medicare rates that the staff use when verifying claims. If rates could not be verified by the established Medicare rates that we maintain, we will only pay 50% of charges.

Proposed Completion Date: N/A

Auditor Response:

a. The EAC rates computation used at condition (a) above is based on the signed agreement between the Medicaid Office and the service provider.

b. Rates for services tested are not included in the list of Medicare rates that the staff uses when verifying claims and we could not substantiate the allowability of the services tested at condition (b) above.

Finding No.: 2010-46
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Number: 05-1005CQ5MAP
Area: Cash Management
Questioned Costs: $16,960

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 refunds from the date the refund is credited to the CNMI's account until the date the refund is debited from the CNMI's account for program purposes. The allowable clearance pattern is ten days.

Further, a written policy should exist that includes, 1) those programs covered by the agreement, 2) the method of funding to be used, 3) the method used to calculate interest, and 4) procedures for determining check clearing patterns. In addition, compliance with Treasury-State agreements should be reviewed.

Condition: Our tests determined overdrawn amounts of $16,960 as follows:

Business Unit	Receipts	Expenditures	Excess
H0778B	$ 4,859,634	$ 4,842,674	$ 16,960

Cause: The cause of the above condition is the lack of control procedures to timely monitor grant funds.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements and questioned costs of $16,960.

Recommendation: We recommend that the CNMI implement adequate control procedures to constantly monitor available funds.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: This is an overdrawn amount. Need to check with Medicaid, federal and Treasury as to what happened.

Proposed Completion Date: Ongoing

Finding No.:	2010-47
Federal Agency:	U.S. Department of Health and Human Services
CFDA Program:	93.778 Medical Assistance Program
Grant Numbers:	05-1005CQ5MAP, 05-1005CQ5ADM, 05-1005CQ1935, 05-1005CQARRA and 05-1005CQPRTD
Area:	Eligibility
Questioned Costs:	$14,952

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-seven eligibility files noted that eligibility folders were not available as follows:

Case No./HRN No.	Service/Visit Date	Cost
602663	12/23/07	$ 8,856
100635	01/06/07	13,383
701248	08/02/07	7,664
	Total	$ 29,903
	Federal share (50%)	$ 14,952

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

Effect: The effect of the above condition is noncompliance with eligibility requirements pursuant to the Medicaid Operational Plan and possible use of federal funds for ineligible individuals and questioned costs of $14,952.

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

Prior Year Status: The lack of adequate procedures that only eligible recipients receive Medicaid assistance was reported as a finding in the Single Audit of the CNMI for fiscal years 2007 through 2009.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit findings. The eligibility folders were made available but the auditor did not come to our office to review them.

Proposed Completion Date:

Auditor Response: We visited the Medicaid Office and examined the eligibility folders provided to us; however, eligibility files did not contain documentation to substantiate the period of services tested in the condition above.

Finding No.:	2010-48
Federal Agency:	U.S. Department of Health and Human Services
CFDA Program:	93.778 Medical Assistance Program
Grant Numbers:	05-1005CQ5MAP, 05-1005CQ5ADM, 05-1005CQ1935, 05-1005CQARRA and 05-1005CQPRTD
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 (CNMI DOF).

Condition: Based on total expenditures reported to the grantor for the year ended September 30, 2010 using the CMS 64 Certification, total federal expenditures reported amounted to $7,061,012. The actual expenditures per the general ledger amounted to $6,642,536 resulting in a variance of $418,476.

Cause: The cause of the above condition is due to 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 determine 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 2009.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the auditor's finding. Every end of the quarter, we request the detail expenditures report from the DOF. Therefore, the information reported to the grantor is based on the CNMI's financial records. The auditor should look at that report instead of each quarter when they are going to conduct the audit since it is based on an accrual basis and therefore, it will never be the same. As noted by the auditor, the total expenditures reported to the grantor for the year ended September 30, 2010 using the CMS 64 Certification amounted to $7,061,012. Based on my review with the CMS 64 reports, total federal expenditures reported amounted to $7,463,909 and including other programs from Medicaid - ARRA, Enhance Allotment Plan (EAP) and State Children's Health Insurance Program (SCHIP).

Proposed Completion Date: N/A

Auditor Response: A reconciliation between expenditures reported in the CMS 64 and the general ledger was not provided. Expenditures recorded in the general ledger, which we obtained from the DOF did not agree with the expenditures reported in the CMS 64 prepared by the Medicaid Office. Expenditures reported in the finding did not include expenditures for SCHIP. SCHIP expenditures are reported separately in the Schedule of Expenditures of Federal Awards.

Finding No.: 2010-49
CFDA Program: All Major Programs
Area: Allowable Costs/Cost Principles
Questioned Costs: $74,212

Criteria: In accordance with applicable allowable costs/cost principles requirements, employee certifications are required from employees working for one federal program. Further, 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.

Additionally, OMB Circular A-133 requires that the Single Audit report be submitted with nine months after the audit period end.

Condition: Tests of personnel expenses noted the following:

1. Tests of employee activities noted that required certifications are not being obtained for employees working full-time on specific federal programs. 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.

2. 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. On June 29, 2009, Civil Action (CA) No. 06-0367 ordered the CNMI to pay an employer contribution rate of 16% beginning with the payroll period ending August 14, 2009. The employer contribution rate was re-adjusted and the CNMI was ordered to remit employer contribution rates of 20% effective with the payroll period ending November 7, 2009.

   The CNMI accrued employer contributions at the actuarial rate of 37.3909% 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 20% pursuant to CA No. 06-0357. The employer retirement contributions attributable to employees whose salaries and wages are federally funded were charged to the federal awards at 37.3909%, except for CFDA 10.551 (Supplemental Nutrition Assistance Program) which was charged at 11%. During fiscal year 2010, the total employer retirement contributions charged to major programs amounted to $156,785. The estimated difference in employer retirement contributions should correct rates be charged is $74,212 as follows:

CFDA No.	Retirement Contribution Per General Ledger	Retirement Contribution Per Expectation	Questioned Costs
10.557	$ 23,091	$ 12,161	$ 10,930
15.875	71,888	37,861	34,027
81.041	35,849	18,880	16,969
93.778	25,957	13,671	12,286
	$ 156,785	$ 82,573	$ 74,212

Additionally, the CNMI's Single Audit was not completed and submitted within nine months after September 30, 2010.

Finding No.: 2010-49, Continued
CFDA Program: All Major Programs
Area: Allowable Costs/Cost Principles
Questioned Costs: $74,212

Cause: The cause of the above condition is the lack of awareness regarding required employee certifications, the enactment of Public Law No. 16-32, inadequate cash flows to meet current obligations and an inability to meet OMB reporting requirements.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements and questioned costs of $74,212. No questioned cost is presented for condition 1 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. We further recommend compliance with OMB Circular A-87. We also recommend that the CNMI complete and submit its Single Audit within nine months after year end.

Prior Year Status: The lack of employee certifications was reported as a finding in the Single Audit of the CNMI for fiscal year 2009. Charging federal award amounts in excess of remittances and inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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: Ongoing

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 to 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. The retirement charge should be applied uniformly over all funds and should not discriminate against federal funding sources.

Finding No.: 2010-50
CFDA Program: All Major Programs
Area: Procurement and Suspension and Debarment
Questioned Costs: $-0-

Criteria: Applicable 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 P&S 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. Questioned costs related to this finding are included at Finding Nos. 2010-29 and 2010-40.

Recommendation: We recommend that the CNMI review its current procurement regulations to conform with applicable federal laws.

Finding No.: 2010-50, Continued
CFDA Program: 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 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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 4th 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.

Proposed Completion Date: Ongoing

Auditor Response: We recommend that the CNMI review its current procurement regulations to conform with applicable federal laws and seek guidance from the grantor agency regarding the application of restricted competition for transactions meeting the $2,500 threshold. Further, evidence of compliance with procurement regulations should be adequately documented with procurement files.

Finding No.: 2010-51
CFDA Program: Nonmajor Programs
Area: Allowable Costs/Cost Principles
Questioned Costs: $727,120

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. On June 29, 2009, Civil Action (CA) No. 06-0367 ordered the CNMI to pay an employer contribution rate of 16% beginning with the payroll period ending August 14, 2009. The employer contribution rate was re-adjusted and the CNMI was ordered to remit employer contribution rates of 20% effective with the payroll period ending November 7, 2009.

The CNMI accrued employer contributions at the actuarial rate of 37.3909% 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 20% pursuant to CA No. 06-0357. The employer retirement contributions attributable to employees whose salaries and wages are federally funded were charged to the federal awards at 37.3909%, except for CFDA 10.551 (Supplemental Nutrition Assistance Program) which was charged at 11%. During fiscal year 2010, the total employer retirement contributions charged to federal awards amounted to $1,536,151. The estimated difference in employer retirement contributions should correct rates be charged to federal awards is $727,120 as follows:

CFDA No.	Retirement Contribution Per General Ledger	Retirement Contribution Per Expectation	Questioned Costs
11.419	$ 117,928	$ 62,108	$ 55,820
11.437	36,527	19,237	17,290
15.605	107,152	56,433	50,719
15.608	46,873	24,686	22,187
15.875	62,773	33,060	29,713
15.904	45,898	24,173	21,725
16.803	30,283	15,949	14,334
20.218	22,001	11,587	10,414
66.600	274,517	144,577	129,940
84.126	128,381	67,613	60,768
93.044	26,687	14,055	12,632
93.045	27,321	14,389	12,932
93.069	46,292	24,380	21,912
93.268	79,259	41,743	37,516
93.283	40,502	21,331	19,171
93.556	22,786	12,000	10,786
93.569	55,445	29,201	26,244
93.575	39,231	20,662	18,569
93.645	29,827	15,708	14,119
93.959	49,583	26,114	23,469
93.994	54,776	28,848	25,928
97.036	21,180	11,155	10,025
97.042	60,559	31,894	28,665
97.073	63,762	33,581	30,181
20.Unknown	46,608	24,547	22,061
	$ 1,536,151	$ 809,031	$ 727,120

Finding No.: 2010-51, Continued
CFDA Program: Nonmajor Programs
Area: Allowable Costs/Cost Principles
Questioned Costs: $727,120

Cause: The cause of the above condition is the enactment of Public Law No. 16-32 and inadequate cash flows to meet current obligations.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements and questioned costs of $727,120.

Recommendation: We recommend compliance with the criteria.

Prior Year Status: Charging federal award amounts in excess of remittances and inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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: Ongoing

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 to 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. The retirement charge should be applied uniformly over all funds and should not discriminate against federal funding sources.

Finding No.:	2010-52
CFDA No.:	Nonmajor Program - 93.767 State Children's Health Insurance Program
Area:	Period of Availability of Federal Funds
Questioned Costs:	$941,572

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 tests determined that $941,572 in SCHIP expenditures were incurred before Medicaid funds were exhausted. Our tests of the Medicaid Program indicated that $97,870 of program funds remained unspent as of September 30, 2010.

Cause: The cause of the above condition is lack of internal control procedures to monitor grant funds.

Effect: The effect of the above condition is noncompliance with the Operational Plan and questioned costs of $941,572.

Recommendation: We recommend that CNMI Medicaid implement adequate internal control procedures to monitor available funds.

Prior Year Status: The lack of internal control procedures to monitor grant funds was reported as a finding in the Single Audit of the CNMI for fiscal year 2009.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the finding. The total SCHIP grant award is $817,763 and if your examination of the schedule of expenditures of federal awards indicated SCHIP expenditures of $941,572, there is an excess of expenditures of $123,809. The grant award for SCHIP was provided to the auditor.

Proposed Completion Date: N/A

Auditor Response: We are in receipt of the grant award of $817,763 however $941,572 was included in the schedule of expenditures of federal awards (SEFA) provided by DOF and those amounts were charged to the SCHIP award prior to exhausting Medicaid funds. A reconciliation of the aforementioned grant and expenditure amounts was not provided.

Finding No.: 2010-53
CFDA No.: Nonmajor Programs
Area: Procurement and Suspension and Debarment
Questioned Costs: $145,859

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, recorded expenditures should be supported with complete procurement and contract files.

Condition: Of seventy-four nonmajor program nonpayroll expenditures tested aggregating $2,265,613, the relevant procurement documents (i.e., bid invitations, bid summary, bids received, evidence of public notice) supporting the procurement for the following contracts procured through competitive sealed bids were not provided:

CFDA No.	Business Unit No.	Contract No.	Document Ref. No.	General Ledger Amount
15.875	I98756	510708 OC	821606	$ 78,346
93.069	H9069D	520715-OA	228389	$ 67,513

Cause: The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement 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 $145,859.

Recommendation: We recommend that P&S maintain and file all relevant procurement documents.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman S. Sablan, Director of P&S

Corrective Action: Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. P&S should have all pertinent documents in file. A checklist has been developed to be reviewed on contract completion to ensure all related documents are included.

Proposed Completion Date: FY 2012

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2010

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, 2010:

Questioned costs as previously reported:	
Fiscal year 2009	$ 4,817,031
Fiscal year 2008	7,165,481
Fiscal years 2007 and prior	7,249,314
	19,231,826
Questioned costs of fiscal year 2010 Single Audit	5,483,038
Unresolved questioned costs at September 30, 2010	$ 24,714,864

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 18 through 115).

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, 2009. Findings related to questioned costs of $14,414,795 from fiscal year 2008 and prior Single Audits have not been resolved.

FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding No. 2009-1 - Corrective action was taken.

Finding No. 2009-2 - Not corrected. See corrective action plan to Finding No. 2010-01.

Finding No. 2009-3 - Not corrected. See corrective action plan to Finding No. 2010-02.

Finding No. 2009-4 - Not corrected. See corrective action plan to Finding No. 2010-03.

Finding No. 2009-5 - Not corrected. See corrective action plan to Finding No. 2010-04.

Finding No. 2009-6 - Corrective action was taken.

Finding No. 2009-7 - Not corrected. See corrective action plan to Finding No. 2010-05.

Finding No. 2009-8 - Not corrected. See corrective action plan to Finding No. 2010-06.

Finding No. 2009-9 - Not corrected. See corrective action plan to Finding No. 2010-07.

Finding No. 2009-10 - Not corrected. See corrective action plan to Finding No. 2010-08.

Finding No. 2009-11 - Corrective action was taken.

Finding No. 2009-12 - Not corrected. See corrective action plan to Finding No. 2010-09.

Finding No. 2009-13 - Not corrected. See corrective action plan to Finding No. 2010-10.

Finding No. 2009-14 - Not corrected. See corrective action plan to Finding No. 2010-11.

Finding No. 2009-15 - Not corrected. See corrective action plan to Finding No. 2010-12.

Finding No. 2009-16 - Not corrected. See corrective action plan to Finding No. 2010-13.

Finding No. 2009-17 - Not corrected. See corrective action plan to Finding No. 2010-14.

Finding No. 2009-18 - Not corrected. See corrective action plan to Finding No. 2010-15.

Finding No. 2009-19 - Not corrected. See corrective action plan to Finding No. 2010-16.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding No. 2009-20	-	Not corrected. See corrective action plan to Finding No. 2010-17.
Finding No. 2009-21	-	Not corrected. See corrective action plan to Finding No. 2010-18.
Finding No. 2009-22	-	Corrective action was taken.
Finding No. 2009-23	-	Corrective action was taken.
Finding No. 2009-24	-	Not corrected. See corrective action plan to Finding No. 2010-19.
Finding No. 2009-25	-	Not corrected. See corrective action plan to Finding No. 2010-20.
Finding No. 2009-26	-	Corrective action was taken.
Finding No. 2009-27	-	Corrective action was taken.
Finding No. 2009-28	-	Corrective action was taken.
Finding No. 2009-29	-	Corrective action was taken.
Finding No. 2009-30	-	Corrective action was taken.
Finding No. 2009-31	-	Not corrected. See corrective action plan to Finding No. 2010-25.
Finding No. 2009-32	-	Not corrected. See corrective action plan to Finding No. 2010-26.
Finding No. 2009-33	-	Not corrected. See corrective action plan to Finding No. 2010-27.
Finding No. 2009-34	-	Not corrected. See corrective action plan to Finding No. 2010-28.
Finding No. 2009-35	-	Not corrected. See corrective action plan to Finding No. 2010-29.
Finding No. 2009-36	-	Corrective action was taken.
Finding No. 2009-37	-	Corrective action was taken.
Finding No. 2009-38	-	Corrective action was taken.
Finding No. 2009-39	-	Corrective action was taken.
Finding No. 2009-40	-	Not corrected. See corrective action plan to Finding No. 2010-30.
Finding No. 2009-41	-	Corrective action was taken.
Finding No. 2009-42	-	Not corrected. See corrective action plan to Finding No. 2010-32.
Finding No. 2009-43	-	Not corrected. See corrective action plan to Finding No. 2010-33.
Finding No. 2009-44	-	Corrective action was taken.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT, CONTINUED

Finding No. 2009-45	-	Corrective action was taken.
Finding No. 2009-46	-	Corrective action was taken.
Finding No. 2009-47	-	Not corrected. See corrective action plan to Finding No. 2010-45.
Finding No. 2009-48	-	Not corrected. See corrective action plan to Finding No. 2010-47.
Finding No. 2009-49	-	Corrective action was taken.
Finding No. 2009-50	-	Not corrected. See corrective action plan to Finding No. 2010-48.
Finding No. 2009-51	-	Corrective action was taken.
Finding No. 2009-52	-	Not corrected. See corrective action plan to Finding No. 2010-49.
Finding No. 2009-53	-	Not corrected. See corrective action plans to Finding Nos. 2010-49 and 2010-51.
Finding No. 2009-54	-	Not corrected. See corrective action plan to Finding No. 2010-50.
Finding No. 2009-55	-	Not corrected. See corrective action plan to Finding No. 2010-52.
Finding No. 2009-56	-	Corrective action was taken.