

May 1, 2012

Ms. Larrisa Larson
Secretary of Finance
Department of Finance
Commonwealth of the Northern Mariana Islands:

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2010 (on which we have issued our report dated May 1, 2012) and 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the CNMI's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the CNMI's internal control over financial reporting and other matters as of September 30, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Benigno R. Fitial, also dated May 1, 2012, on our consideration of the CNMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

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

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

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

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

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

Very truly yours,

Deloitte & Touche LLC

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the CNMI’s internal control over financial reporting as of September 30, 2010.

(1) Revenue/Receipts

Tests of cash receipts of the Division of Revenue and Taxation (DRT) determined the following:

- a. For three transactions (ref. receipt nos. 2330468, 2228140 and 2278797), the related tax return was not provided for examination.
- b. For two transactions (ref. receipt nos. 2284247 and 2358913), collections were not timely recorded to the general ledger with delays of two to four months noted.
- c. For one transaction (ref. receipt no. 2241475), the collections indicated in the Cashier Deposit Reconciliation Summary Report (CDRSR) did not match the amount on the deposit slip.
- d. For twenty-three transactions, adequate supporting information was not provided to determine whether taxes or fees paid were properly assessed.

<u>Receipt Nos.</u>	<u>Receipt Nos.</u>	<u>Receipt Nos.</u>
2240021	2309423	2367850
2244595	2315574	2268447
2254623	2321017	2347692
2263695	2327782	2234208
2271334	2337937	2306638
2284247	2347461	2228892
2290867	2353370	2294960
2301253	2358913	

We recommend timely recording of collections to the general ledger and that all tax returns be properly filed and maintained. These matters were discussed in our previous letters dated June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006 and March 1, 2006.

(2) Revenue/Receipts

Tests of Commonwealth Health Center (CHC) cash receipts noted the following:

- a. For two transactions (ref. nos. 166416 and 170705), amounts deposited were \$20 and \$30, respectively, less than the amounts collected.
- b. The following transactions were deposited after three business days:

<u>Ref No.</u>	<u>Transaction Date</u>	<u>Deposit Date</u>	<u>Elapsed</u>	<u>Amount</u>
167784	12/07/09	12/11/09	4	\$ 122,335
169904	02/11/10	02/18/10	7	\$ 71,818

- c. One transaction (ref. no. 172830) was recorded at an amount \$154 higher than the actual collection.
- d. Receipt details for one transaction (ref. no. 172830) amounting to \$231,793 were not provided and we could not verify if the collection was accurate and complete. Further, we are unable to test the propriety of underlying billings.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(2) Revenue/Receipts, Continued

- e. A supporting billing or invoice was not provided for one transaction (receipt. no. 2361924).

We recommend CHC investigate collection variances in a timely manner and ensure files are properly maintained. We also recommend CHC ensure that collections are deposited on a timely basis. These matters were discussed on our previous letter dated June 23, 2010.

(3) Revenue/Receipts

Tests of Special Revenue Funds cash receipts/revenues determined the following:

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

<u>Location No.</u>	<u>Transaction Date</u>
2	12/29/09

- b. The CDRSR was not initialed by the cashier or the reviewer for the following:

<u>Location No.</u>	<u>Transaction Dates</u>	<u>Total Collections</u>
2	10/19/09	\$ 45,276
2	10/13/09	\$ 49,152

We recommend that all CDRSRs be initialed by the cashier and examined by a supervisor or by Treasury personnel independent of the cashiering function. This matter was discussed in our previous letters dated June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005.

- c. Supporting invoices, billings and relevant documents were not made available for the following:

<u>Location No.</u>	<u>Transaction Dates</u>	<u>Total Collections</u>
1	01/22/10	\$ 11,007
1	07/14/10	\$ 21,057

- d. Supporting documents for two cash receipts (receipt nos. 494 and 532) recorded in Fund 1016 were not provided.

We recommend that the CNMI Department of Finance (DOF) take steps to ensure that all cash receipts recorded in the general ledger are supported by agreements, invoices, billings and other relevant documents.

(4) Purchases/Disbursements

Tests of purchases/disbursements determined the following:

- a. Of sixty-three non-payroll General Fund expenditures tested, aggregating \$4,521,981, the following related to the prior year:

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(4) Purchases/Disbursements, Continued

<u>Business Unit</u>	<u>Account</u>	<u>Document No.</u>	<u>Amount</u>
1951	62060	547149	\$ 2,962
1975	62060	553847	\$ 91,013
1160	62060	563544	\$ (54,433)
1607	62060	563544	\$ (18,144)
1400	62250	547893	\$ 84
1335	63050	552448	\$ 1,527
1831	63070	825054	\$ 61,186

- b. Of fifteen non-payroll Special Revenue Fund - nonmajor funds expenditures tested, aggregating \$135,608, the following related to the prior year:

<u>Fund</u>	<u>Business Unit</u>	<u>Account</u>	<u>Document Ref. No.</u>	<u>Amount</u>
01016	1950I	1950I.62440	PV	\$ 2,200

- c. Of total expenditures tested of the capital projects fund - nonmajor funds of \$1,917,700, the following related to the prior year:

<u>Fund</u>	<u>Business Unit</u>	<u>Account</u>	<u>Document Ref. No.</u>	<u>Amount</u>
01016	1950I	3750E.64200.64280	PV	\$ 19,361
4042	4637	4637.64300.64320	OV	\$ 158,919

Management did not consider the above amounts to be material to the financial statements. We recommend that DOF ensure that expenditures are recorded in the correct fiscal year. This matter was discussed in our previous letters dated June 23, 2010 and June 15, 2009.

(5) Payroll

Tests of payroll expenses determined the following:

1. Of sixty-five General Fund payroll expenses tested, aggregating \$1,697,041, the following were noted:
 - a. Variances exist between the general ledger and payroll distribution report (PDR) for which no reconciliation was provided:

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Per General Ledger</u>	<u>Per PDR</u>	<u>Variance</u>
1130	61090	10/10/09	26,059	18,434	7,625
1400	61090	10/10/09	4,446	7,317	(2,871)
1400	61090	10/24/09	4,446	5,893	(1,447)
1410	61090	11/07/09	21,170	18,597	2,573
1440	61090	11/21/09	19,284	15,867	3,417
1471	61090	12/05/09	11,205	6,477	4,728
1901	61090	12/19/09	8,482	11,981	(3,499)
1486	61090	01/02/10	10,678	5,944	4,734
1486	61090	01/16/10	9,652	9,990	(338)
1467	61090	01/30/10	6,955	8,227	(1,272)
1412	61090	02/27/10	14,089	13,500	589
1412	61090	03/13/10	13,154	13,199	(45)
1440	61090	03/27/10	21,479	20,911	568
1440	61090	04/10/10	23,860	22,313	1,547

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(5) Payroll, Continued

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Per General Ledger</u>	<u>Per PDR</u>	<u>Variance</u>	
	1410	61090	04/24/10	20,774	19,846	928
	1380	61090	05/08/10	90,487	84,609	5,878
	1410	61090	05/22/10	19,034	18,425	609
	1410	61090	06/05/10	21,124	23,798	(2,674)
	1380	61090	07/03/10	88,546	1,830	86,716
	1380	61090	07/17/10	80,428	69,767	10,661
	1411	61090	07/31/10	8,292	9,837	(1,545)
	1411	61090	08/14/10	8,292	6,245	2,047
	1412	61090	08/28/10	15,838	15,881	(43)
	1440	61090	09/11/10	20,318	6,775	13,543
	1471	61090	09/25/10	9,808	3,822	5,986
	1690	61100	10/10/09	44,911	54,280	(9,369)
	1726	61100	10/24/09	1,796	1,700	96
	1063	61100	11/21/09	92,403	75,076	17,327
	1063	61100	01/02/10	79,062	46,481	32,581
	1770	61100	01/16/10	35,685	25,610	10,075
	1063	61100	02/27/10	85,681	84,949	732
	1690	61100	03/13/10	38,894	47,394	(8,500)
	1200	61100	04/10/10	1,846	8,001	(6,155)
	1190	61100	04/24/10	9,240	11,067	(1,827)
	1770	61100	05/22/10	37,294	34,380	2,914
	1061	61100	06/05/10	25,127	24,341	786
	1470	61100	07/17/10	5,068	5,000	68
	1976	61100	07/31/10	8,713	11,544	(2,831)
	1065	61100	08/28/10	55,287	50,708	4,579
	1694	61100	09/11/10	9,605	9,779	(174)
	1061	61100	09/25/10	25,918	25,795	123
	1350	61110	11/21/09	757	52,182	(51,425)
	17116	61110	03/13/10	1,154	1,111	43
	1350	61150	01/16/10	26,137	65,869	(39,732)
	1335	61090	01/16/10	24,588	57,246	(32,658)
	1335	61090	04/24/10	19,985	74,394	(54,409)
	1658	61090	07/31/10	34,680	22,133	12,547
	1820	61100	10/10/09	8,823	5,256	3,567
	1824	61100	11/21/09	1,388	11,981	(10,593)
	1860	61100	01/02/10	6,850	6,537	313
	1831	61100	05/08/10	20,040	21,790	(1,750)
	1831	61100	06/05/10	22,328	25,660	(3,332)
	1821	61100	07/17/10	12,392	17,375	(4,983)
	1807	61100	08/28/10	139,483	137,041	2,442
	1807	61110	03/13/10	153,548	144,577	8,971
	1831	61110	09/25/10	21,056	23,185	(2,129)

b. The business unit (BU) indicated in the general ledger and payroll register does not agree with the authorized BU indicated on the Personnel Action Form (PAF):

<u>Object Account No.</u>	<u>Employee No.</u>	<u>General Ledger Date</u>	<u>BU per General Ledger</u>	<u>Authorized BU per PAF</u>	<u>Gross Payroll Amount</u>
61090	101903	05/22/10	1380	1365	\$ 1,556
61150	415132	01/16/10	1658	1821	\$ 1,595
61100	415450	02/13/10	1821	1831	\$ 957
61100	555665	07/17/10	1824	1813	\$ 957

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(5) Payroll, Continued

- c. The approved PAF for the following employee was not made available:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Employee No.</u>
1190	04/10/10	559316

- d. There was no evidence that overtime hours paid for one employee were authorized and approved:

<u>Employee No.</u>	<u>General Ledger Date</u>	<u>Overtime Pay</u>	<u>Gross Payroll Amount</u>
102820	03/13/10	\$ 430	\$ 1,016

- e. Hours indicated on the supporting timesheet do not agree with hours of the payroll register:

<u>Business Unit</u>	<u>Object Account No.</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Hours per Timesheet</u>	<u>Hours per Payroll Register</u>
1831	61090	518306	01/02/10	120	130
1380	61090	372732	07/03/10	183	263

2. Of forty-five Federal Fund payroll expenses tested, aggregating \$272,323, the following were noted:

- a. Variances exist between the general ledger and PDR for which no reconciliation was provided:

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Per General Ledger</u>	<u>Per PDR</u>	<u>Variance</u>
H00451	61195	06/19/10	\$ 72	\$ 4,341	\$ (4,269)
H9569A	61090	01/30/10	\$ 5,866	\$ 6,725	\$ (859)
I0605M	61090	11/21/09	\$ 5,175	\$ 5,725	\$ (550)
I0875R	61090	09/25/10	\$ 4,999	\$ 4,805	\$ 194
I9608A	61100	08/28/10	\$ 1,347	\$ 3,641	\$ (2,294)
I9875U	61090	12/05/09	\$ 3,844	\$ 4,969	\$ (1,125)
J7073A	61100	01/02/10	\$ 8,077	\$ 9,820	\$ (1,743)
J9803I	61090	04/10/10	\$ 3,074	\$ 3,651	\$ (577)
L0259D	61100	08/14/10	\$ 56,253	\$ 18,785	\$ 37,468
L0504A	61100	06/05/10	\$ 1,548	\$ 2,392	\$ (844)
L9259D	61100	08/28/10	\$ 5,651	\$ 5,506	\$ 145
P5600D	61090	03/13/10	\$ 13,196	\$ 12,053	\$ 1,143
P5600D	61100	11/21/09	\$ 28,732	\$ 43,744	\$ (15,012)
P5600D	61100	04/10/10	\$ 30,900	\$ 44,821	\$ (13,921)
P5600D	61100	08/14/10	\$ 31,211	\$ 33,163	\$ (1,952)
P7608D	61100	07/17/10	\$ 1,385	\$ 1,538	\$ (153)

- b. The BU indicated in the general ledger and payroll register does not agree with the authorized BU indicated on the PAF:

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(5) Payroll, Continued

<u>Object Account No.</u>	<u>Employee No.</u>	<u>General Ledger Date</u>	<u>BU per General Ledger</u>	<u>Authorized BU per PAF</u>	<u>Gross Payroll Amount</u>
61090	210675	06/24/10	C0454A	C91234	\$ 1,275

- c. The hourly rate of the payroll register does not agree with the hourly rate of the PAF for the following employees:

<u>Employee No.</u>	<u>Hourly Rate per PAF</u>	<u>Hourly Rate per Payroll Register</u>	<u>Variance</u>
210675	\$ 15.94	\$ 7.63	\$ 8.31
349293	\$ 5.10	\$ 4.40	\$ 0.70

- d. The gross pay of the payroll register does not agree with the gross pay of the PDR for the following employees:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Employee No.</u>	<u>Gross Pay per Payroll Register</u>	<u>Gross Pay per PDR</u>	<u>Variance</u>
C0419F	03/13/10	512126	\$ 692	\$ 517	\$ 175
H00451	06/19/10	349293	\$ 408	\$ 352	\$ 56
T8075P	08/14/10	386827	\$ 1,923	\$ 962	\$ 961

- e. The following payroll check could not be traced to related bank statements:

<u>Employee No.</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Check Amount</u>
167728	2589	08/24/10	\$ 665

3. Of five Special Revenue nonmajor fund payroll expenses tested, aggregating \$79,502, variances exist between the general ledger and PDR for which no reconciliation was provided:

<u>Business Unit</u>	<u>Object Account No.</u>	<u>General Ledger Date</u>	<u>Per General Ledger</u>	<u>Per PDR</u>	<u>Variance</u>
1950	61090	11/21/09	\$ 17,170	\$ 56,781	\$ (39,611)
3501	61090	08/14/10	\$ 4,005	\$ 2,322	\$ 1,683
1950	61190	07/03/10	\$ 14,427	\$ 32	\$ 14,395

We recommend that the CNMI Payroll Division investigate variances between general ledger and PDRs. Further, we recommend that DOF ensure that relevant payroll documents and reports are filed and maintained. These matters were discussed in our previous letters dated June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005.

(6) Receivables

At September 30, 2010, CHC receivables from the Worker's Compensation Commission (WCC) of \$62,173 did not agree to the balance confirmed by WCC of \$26,516. A reconciliation of the difference was not available. The difference was not considered material to the financial statements by management. We recommend CHC perform regular receivable reconciliations. This matter was discussed in our previous letters dated June 23, 2010, June 15, 2009 and June 27, 2008.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(7) Travel Advances

At September 30, 2010, the General Fund recorded travel advances of \$1,536,459, which represent advances outstanding and unliquidated for more than ninety days, and of which \$1,431,649 represent carryforwards from prior years.

Additionally, of three travel advances tested, the following were noted:

- a. A travel authorization, a travel voucher and other relevant supporting documents were not available for one travel advance (employee no. 103903 for \$588).
- b. Two travel advances were outstanding and unliquidated for more than ninety days:

<u>Employee Number</u>	<u>Travel Advance at September 30, 2010</u>
100476	\$ 7,127
254343	\$ 8,628

We recommend that advances outstanding in excess of one year be scrutinized, collectability evaluated, and any amounts deemed uncollectible be written off. In addition, we recommend that DOF consider payroll deductions as a means of collecting outstanding advances and that policies and procedures be implemented and enforced requiring timely liquidation of all travel advances. This matter was discussed in our previous reports on the internal control over financial reporting for fiscal years 1987 through 2009.

(8) Payables

At September 30, 2010, general ledger balances for the following payables were not reconciled to the subsidiary ledger:

<u>Fund</u>	<u>Object Acct. No.</u>	<u>Per General Ledger</u>	<u>Per Subsidiary Ledger</u>	<u>Variance</u>
1010	20100	\$ 161,489,098	\$ 161,216,488	\$ (272,610)
1013	20100	\$ 50,607	\$ 52,744	\$ 2,137
1015	20100	\$ 31,315	\$ 31,415	\$ 100
2020	20100	\$ 1,455,954	\$ 1,441,614	\$ (14,340)

Management did not consider the variances to be material to the financial statements. We recommend that periodic reconciliation of general and subsidiary ledger payable balances be performed. This matter was discussed in our previous letter dated June 23, 2010.

(9) Payables

Of \$9,243,520 recorded in the payable subsidiary ledger, \$1,456,415 represents payables that have been outstanding for more than three years as follows:

<u>Fund</u>	<u>Voucher Balance Per Subsidiary Ledger (Excluding Debit Balances)</u>	<u>Outstanding for More Than Three Years</u>
General	\$ 5,913,115	\$ 1,122,630
Federal Grants	1,682,571	38,477
DOI Capital Projects	836,251	31,580
Special Revenues - Nonmajor	450,895	16,537
Capital Projects - Nonmajor	<u>360,688</u>	<u>247,191</u>
	<u>\$ 9,243,520</u>	<u>\$ 1,456,415</u>

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(9) Payables, Continued

We recommend that DOF investigate long outstanding payables and ensure they are valid. This matter was discussed in our previous letters dated June 23, 2010 and June 15, 2009.

(10) Annual Leave

Of twelve accrued leave balances tested, aggregating to \$91,687, the following were noted:

- a. Variances were noted between amounts accrued and expectations determined from leave transactions through PPE 09/25/10 and manual adjustments as follows:

<u>Employee No.</u>	<u>Per Expectation</u>	<u>Per Subledger</u>	<u>Variance</u>
100225	\$ 3,596	\$ 5,069	\$ 1,473
101001	\$ 6,533	\$ 6,432	\$ (101)
101638	\$ 5,596	\$ 5,516	\$ (80)
102144	\$ 2,877	\$ 5,168	\$ 2,291
102567	\$ 8,961	\$ 42,978	\$ 34,017
103157	\$ 11,358	\$ 11,089	\$ (269)
162748	\$ 2,846	\$ 2,796	\$ (50)
209810	\$ 3,964	\$ 3,882	\$ (82)
295631	\$ 1,011	\$ 894	\$ (117)
403073	\$ 3,254	\$ 2,572	\$ (682)
551031	\$ 1,362	\$ 1,085	\$ (277)

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

<u>Employee No.</u>	<u>Hours of Leave Taken</u>	<u>Payroll Period Ended</u>
403073	64	01/02/10
445417	13	01/16/10
102144	41	06/19/10
162748	24	07/17/10
551031	35	07/31/10
102567	6	08/14/10

- c. An annual leave form was not approved by the proper authority for the following:

<u>Employee No.</u>	<u>Hours of Leave Taken</u>	<u>Payroll Period Ended</u>
101638	20	01/16/10

We recommend that annual leave hours taken be supported by approved leave forms. These matters were discussed in our previous letters dated June 23, 2010, June 15, 2009, June 27, 2008 and June 18, 2007.

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

DPL is a special revenue fund of the CNMI. DPL transactions throughout the fiscal year, including cash receipts and disbursements, receivables, revenues and other liabilities, were not recorded in the FMS. These transactions were recorded at year-end through proposed audit adjustments. We recommend that DOF coordinate with DPL in recording all transactions into the FMS.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(12) Recording of Transactions

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

<u>Fund No.</u>	<u>Fund Name</u>
3210	Debt Service
7066	Security Deposit
7067	Tobacco Land Settlement
9090	General Long-Term Debt
9091	Capital Assets

Transactions were recorded through proposed audit adjustments. We recommend that DOF establish policies and procedures for the timely recording of transactions related to the above funds. This matter was discussed in our previous letter dated June 23, 2010.

(13) Reserve for Continuing Appropriations - General Fund

At September 30, 2010, the subsidiary ledger balance of the General Fund reserve for continuing appropriations of \$67,876 is net of debit balances of \$96,428. The debit balances relate to accumulated expenditures and obligations of \$2,102,700 in excess of accumulated revenues of \$2,006,272 for the Saipan Ambulance Fee Revenue account (BU no. 1953). The cause of this condition is the delay in billings for ambulance services. We recommend that billings for ambulance services be prepared in a timely manner and that the reserve account be updated.

(14) Reserve for Continuing Appropriations - Capital Projects Fund

Of thirteen projects totaling \$685,678 recorded in the reserve for continuing appropriations balance at September 30, 2010, we noted eight projects totaling \$412,967 with no movement for more than 3 years. We recommend that DOF consult CIP Management as to project status.

(15) Fund 2020 Revenues - Unsupported Journal Entries

Of twenty-one journal entries tested, ten journal entries were not supported by approved journal vouchers or other equivalent documents. There was no evidence that these journal entries were reviewed and approved prior to posting to the general ledger. Further, posting of these journal entries resulted in debit balances in miscellaneous revenue accounts and credit balances in expense accounts. This condition was corrected through proposed audit adjustments.

<u>Business Unit</u>	<u>Date</u>	<u>Document No.</u>	<u>Amount</u>
H9045H	02/28/10	8073	\$ (27,328)
M45190	09/30/10	178582	\$ 103,526
M03090	09/30/10	178582	\$ 223,757
2000	09/30/10	178582	\$ 145,512
M03107	09/30/10	178582	\$ (31,032)
M3544J	09/30/10	178586	\$ 52,263
M35443	09/30/10	178593	\$ 12,021
M8544B	09/30/10	178602	\$ (82,439)
M8544R	09/30/10	178602	\$ 292,817
M8544S	09/30/10	178602	\$ 146,538

Additionally, three journal entries, with the description “to correct out of balance ledger”, were not balanced. We were informed that these journal entries were created to balance unbalanced funds.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(15) Fund 2020 Revenues - Unsupported Journal Entries, Continued

<u>Journal Entry No.</u>	<u>Total Debits</u>	<u>Total Credits</u>	<u>Difference</u>
185456	\$ 2,078,806	\$ 2,943,788	\$ 864,982
178604	\$ 1,050,614	\$ 1,709,750	\$ 658,836
185457	\$ -	\$ 10,123	\$ 10,123

We recommend that all journal entries be supported by approved journal vouchers or equivalent documents. Additionally, journal entries should be reviewed and approved prior to posting to the general ledger. We further recommend that journal entries posted to the general ledger be balanced.

(16) Computer Processing Environment

Our understanding of the entity’s computer processing environment noted that there is no documentation of network modifications. We recommend that all significant network modifications (e.g. changes of network settings, update of network software, installation of new network components) be documented in change forms before the modifications are implemented. The forms should be approved by EDP management and/or division management. This matter was discussed in our previous letters dated June 23, 2010 and June 15, 2009.

SECTION II - OTHER MATTERS

We identified, and have included below, other matters involving the CNMI’s internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention:

(1) Payroll

Our tests of payroll and personnel transactions noted the following for one employee (no. 517107):

- a. Form W-4 was not provided; and
- b. An employee authorization for the following allotment/deduction for pay period ended 07/31/10 was not provided:

<u>Allotment Reference</u>	<u>Amount</u>
3407	\$ <u>600</u>

We recommend that DOF ensure that all relevant payroll documents and reports be filed and maintained. This matter was discussed in our previous letters dated June 23, 2010 and June 15, 2009.

(2) Accounts Receivable

At September 30, 2010, the General Fund recorded the following accounts receivable that had little or no movement from the prior year:

SECTION II - OTHER MATTERS, CONTINUED

(2) Accounts Receivable, Continued

<u>Account No.</u>	<u>Description</u>	<u>Amount</u>
12020.1010	General Account Receivables	\$ 140,699
12022.1010	AGO/Dept. of Labor W/SL	500
12030.1010	A/R Travel Agents	37,364
12110.1010	A/R Vendor Overpayments	22,371
12111.1010	A/R Vendor Overpayments W/SL	40,641
12150.1010	A/R Funeral Services	52,240
12350.1010	A/R Medical Referral Patients	(1,400)
12360.1010	Government Health Insurance Advances	24,943
12490.1010	Allow for Uncoll - Intra Gov	59,139
12510.1010	Employee Accts Receivable	<u>(1,887)</u>
		\$ <u>374,610</u>

In addition, the General Fund also recorded advances (A/c no. 12100.1010) of \$31,621 at September 30, 2010 that have not changed since the prior year. An allowance for doubtful accounts of \$282,952 was recorded in the General Fund to provide for these accounts. Although management did not consider the difference of \$123,279 to be material to the financial statements, we recommend that DOF review these accounts to determine collectability. This matter was discussed in our previous letters dated June 23, 2010, June 15, 2009 and June 27, 2008.

(3) Receivables

At September 30, 2010, the General Fund recorded a fully allowed outstanding receivable from the Tinian Casino Gaming Control Commission (TCGCC) (A/c no. 12340-1010, totaling \$3,103,610). This balance should have been paid in full during fiscal year 2001 in accordance with a Memorandum of Agreement between the Office of the Governor and TCGCC. We recommend that DOF ensure that receivables are collected in accordance with established repayment plans. This matter was discussed in our previous letters dated June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005 and in our previous reports on the internal control over financial reporting dated October 14, 2003 and August 13, 2002.

(4) Receivables

Our tests of receivables noted credit card error receivables (GL 1010.12028) of \$594,175 related to remaining credit card collections not credited to the CNMI's bank account for fiscal year 2007 collections. This condition was due to a bank system upgrade. While CNMI's daily closing of cash machines indicated online connectivity and gives authorization codes for cards swiped and provides settlement summaries, some transactions were not properly processed by the bank. The total discrepancy identified by the CNMI is \$2,306,975 of which \$1,712,800 was resolved in fiscal year 2007. At September 30, 2010, the receivable is fully allowed for. We recommend that the CNMI continue its efforts to resolve the remaining discrepancy of \$594,175. This matter was discussed in our previous letters dated June 23, 2010 and June 15, 2009.

(5) Receivables

Receivable balances related to the 1% Office of the Public Auditor (OPA) fee recorded in the general ledger do not agree to balances reported in a schedule obtained from OPA. Further, these receivable balances do not agree to the payable balances recorded in the corresponding component unit financial statements. We recommend that DOF record receivables based on OPA's updated calculation and ensure that balances are reconciled to the corresponding payable balances recorded by component units.

SECTION II - OTHER MATTERS, CONTINUED

(6) Inventory

In fiscal year 2002, ServMart suspended its operations. Inventory of \$154,233, representing old and expired items, remains in the general ledger at September 30, 2010. We recommend that the Division of Procurement and Supply take action to dispose of these items and adjust the general ledger. This matter was discussed in our previous letters dated June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007 and June 16, 2006.

(7) Inventory

Our inventory count observation of the CHC Pharmacy noted no perpetual inventory records. We recommend that CHC Pharmacy implement perpetual inventory records which provide up-to-date levels of inventories on hand.

(8) Payables

At September 30, 2010, the general fund payable subsidiary ledger includes invalid debit items aggregating \$4,485,054. While the fiscal year 2010 general ledger had been adjusted, the debit items have not been deleted from the subsidiary ledger. We recommend the CNMI ensure that invalid debit items are deleted from the payable subsidiary ledger. This matter was discussed in our previous letters dated June 23, 2010 and June 15, 2009.

(9) Litigation Liability Summary

The litigation liability summary report provided as of June 2011 included two cases paid in fiscal year 2009. We recommend that the litigation summary report be updated timely and that cases settled and paid are properly removed.

(10) Landfill Costs Liability

CNMI's assessment of total estimated future closure costs of \$6.87 million of the solid waste facility and its estimated life of 18 years was performed in 2003. Since the landfill facility has been in operation for a number of years, there could be a more reliable basis of estimating the life and cost. However, no updated estimates to reflect current circumstances were provided. We recommend that the CNMI perform an updated assessment of landfill costs and estimated life of the solid waste facility.

(11) CNMI Local Noncompliance

Pursuant to Public Law (PL) No. 13-42, Section 3, the Solid Waste Management Revolving Account (SWMRA), the Commonwealth Treasury should establish and maintain a SWMRA which shall be accounted for separately from the General Fund. As of September 30, 2010, the SWMRA Fund was not established. We have been advised that such a fund has not been established due to the timeframe in which revenues are received and disbursements are processed. We recommend that DOF ensure that funds relating to SWMRA are separately accounted for as required by PL 13-42. This matter was discussed in our previous letters dated June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005.

SECTION II - OTHER MATTERS, CONTINUED

(12) CNMI Local Noncompliance

Public Law 12-61 requires that all deposits of public funds be 100% collateralized by U.S. Government securities. As of September 30, 2010, compliance with the collateralization requirement for deposits with one bank of \$1,403,929 was unable to be verified. We recommend that DOF ensure that sufficient documentation is obtained and is periodically updated to demonstrate compliance with Public Law 12-61 requirements. This matter was discussed in our previous letters dated June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007 and June 16, 2006.

SECTION III - DEFINITIONS

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

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

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

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

Management's Responsibility

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

Objectives of Internal Control over Financial Reporting

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

Inherent Limitations of Internal Control over Financial Reporting

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