

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2011

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 Eloy S. Inos
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, 2011, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated May 24, 2013. Our report includes an explanatory paragraph concerning the correction of an error, a reference for the adoption of a new accounting standard and a reference to other auditors, and was qualified due to the financial statements of the Commonwealth Ports Authority not being audited and due to our inability to determine the propriety of the Public School System's capital assets, accumulated depreciation, depreciation expense, advances, vouchers payable, accrued expenses and retirement contributions payable and related expenses. Except as discussed in the preceding sentence, 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 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 other 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 Marianas Public Land Trust, the Northern Marianas College and the Public School System, 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 the entities that were audited by us. Other auditors issued separate reports on their consideration 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 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.

Internal Control Over Financial Reporting

Management of the CNMI is responsible for establishing and maintaining effective 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 108), 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 2011-01 through 2011-04, 2011-08, 2011-10 and 2011-14 through 2011-20 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 2011-05 through 2011-07, 2011-09 and 2011-11 through 2011-13 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 2011-21, 2011-22 and 2011-46.

We noted certain matters that we reported to management of the CNMI in a separate letter dated May 24, 2013.

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 24, 2013

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 Eloy S. Inos
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, 2011. 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 108). 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, 2011. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the CNMI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the CNMI's compliance with those requirements.

As described in items 2011-23 through 2011-44 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, period of availability of federal funds, procurement and suspension and debarment and special tests and provisions 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, equipment and real property management, procurement and suspension and debarment and subrecipient monitoring 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 and special tests and provisions that are applicable to its Highway Planning and Construction (CFDA # 20.205) major program; activities allowed or unallowed, allowable costs/cost principles, equipment and real property management and procurement and suspension and debarment that are applicable to its State Energy Program (CFDA # 81.041) major program; allowable costs/cost principles, matching, level of effort, earmarking, procurement and suspension and debarment, reporting and subrecipient monitoring that are applicable to its State Fiscal Stabilization Fund Cluster (CFDA #s 84.394 and 84.397) major program; allowable costs/cost principles, procurement and suspension and debarment and subrecipient monitoring that are applicable to its Education Jobs Fund (CFDA #84.410) major program; and activities allowed or unallowed, allowable costs/cost principles, 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, 2011. 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 2011-45 through 2011-47.

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 2011-30, 2011-33, 2011-35, 2011-36 and 2011-39 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 2011-23 through 2011-29, 2011-31, 2011-32, 2011-34, 2011-37, 2011-38 and 2011-40 through 2011-44 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, 2011, and have issued our report thereon dated May 24, 2013. Our report includes an explanatory paragraph concerning the correction of an error, a reference for the adoption of a new accounting standard and a reference to other auditors, and was qualified due to the financial statements of the Commonwealth Ports Authority not being audited and due to our inability to determine the propriety of the Public School System's capital assets, accumulated depreciation, depreciation expense, advances, vouchers payable, accrued expenses and retirement contributions payable and related expenses. 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 24, 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor
Federal Grants Fund
Year Ended September 30, 2011

Federal Agency	Expenditures
U.S. Department of Agriculture	\$ 17,212,094
U.S. Department of Commerce	2,944,957
Institute of Museum and Library Services	150,870
U.S. Department of Education	30,218,223
U.S. Department of Energy	9,499,010
U.S. Department of Defense	241,434
U.S. Environmental Protection Agency	2,315,427
U.S. Department of Homeland Security	4,174,469
U.S. Department of Health and Human Services	26,657,530
U.S. Department of the Interior	6,463,070
U.S. Department of Justice	2,614,878
U.S. Department of Labor	2,196,581
U.S. Department of Transportation	1,749,097
Unallocated cash receipts/expenditures	<u>(1,632,639)</u>
GRAND TOTAL	<u>\$ 104,805,001</u>

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

Reconciliation:

Expenditures per above	\$ 104,805,001
Local match	<u>13,482,021</u>
	<u>\$ 118,287,022</u>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 116,316,492
Operating Transfers Out	<u>1,970,530</u>
	<u>\$ 118,287,022</u>

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, 2011

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
10.170	Specialty Crop Block Grant Program - Farm Bill	\$ 40,822
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	45,648
10.551	Supplemental Nutrition Assistance Program	11,889,287
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	5,036,830
10.578	WIC Grants To States (WGS)	3,797
10.664	Cooperative Forestry Assistance	118,747
10.769	Rural Business Enterprise Grants	73,150
10.914	Wildlife Habitat Incentive Program	1,769
10.950	Agricultural Statistics Reports	2,044
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>17,212,094</u>
U.S. DEPARTMENT OF COMMERCE		
11.Unknown	USDOC Unknown	3,191
11.YA132309CN0062	2010 Census	13,924
11.Unknown	Western Regional Acquisition Div	4,220
11.300	Investments for Public Works and Economic Development Facilities	252,471
11.419	Coastal Zone Management Administration Awards	1,084,434
11.426	Financial Assistance for National Centers for Coastal Ocean Science	93,745
11.429	Marine Sanctuary Program	2,326
11.437	Pacific Fisheries Data Program	475,732
11.454	Unallied Management Projects	55,490
11.463	ARRA - Habitat Conservation	485,623
11.467	Meteorologic and Hydrologic Modernization Development	27,646
11.555	Public Safety Interoperable Communications Grant Program	303
11.558	ARRA - State Broadband Data and Development Grant Program	445,852
TOTAL U.S. DEPARTMENT OF COMMERCE		<u>2,944,957</u>
U.S. DEPARTMENT OF DEFENSE		
12.113	State Memorandum of Agreement for the Reimbursement of Technical Services	5,168
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	236,266
TOTAL U.S. DEPARTMENT OF DEFENSE		<u>241,434</u>
U.S. DEPARTMENT OF THE INTERIOR		
15.605	Sport Fish Restoration Program	2,414,483
15.608	Fish and Wildlife Management Assistance	22,955
15.611	Wildlife Restoration and Basic Hunter Education	367,722
15.615	Cooperative Endangered Species Conservation Fund	6,184
15.634	State Wildlife Grants	29,496
15.657	Endangered Species Conservation Recovery Implementation Funds	8,206
15.875	Economic, Social, and Political Development of the Territories: Development of TTPI Islands	1,325,312
	Compact Impact	1,930,443
15.875	ARRA - Economic, Social, and Political Development of the Territories	17,615
15.904	Historic Preservation Fund Grants-In-Aid	340,654
TOTAL U.S. DEPARTMENT OF THE INTERIOR		<u>6,463,070</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund, Continued
 Year Ended September 30, 2011

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF JUSTICE		
16.017	Sexual Assault Services Formula Program	2,176
16.523	Juvenile Accountability Block Grants	33,391
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	84,036
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	654
16.548	Title V - Delinquency Prevention Program	17,217
16.575	Crime Victim Assistance	273,765
16.582	Crime Victim Assistance/Discretionary Grants	115,163
16.588	Violence Against Women Formula Grants	662,745
16.710	ARRA- Public Safety Partnership and Community Policing Grants	160,592
16.727	Enforcing Underage Drinking Laws Program	303,316
16.738	Edward Byrne Memorial Justice Assistance Grant Program	486,433
16.801	ARRA - Recovery Act - State Victim Assistance Formula Grant Program	75,513
16.803	ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	<u>399,877</u>
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>2,614,878</u>
U.S. DEPARTMENT OF LABOR		
17.235	Senior Community Service Employment Program	425,327
17.258	WIA Adult Program	612,603
17.258	ARRA - WIA Adult Program	83,669
17.259	WIA Youth Activities	382,849
17.259	ARRA - WIA Youth Activities	72,775
17.260	WIA Dislocated Workers	184,464
17.260	ARRA - WIA Dislocated Workers	260,043
17.273	Temporary Labor Certification for Foreign Workers	1,703
17.504	Consultation Agreements	<u>173,148</u>
TOTAL U.S. DEPARTMENT OF LABOR		<u>2,196,581</u>
U.S. DEPARTMENT OF TRANSPORTATION		
20.Unknown	USDOT Unknown	107,050
20.205	Highway Planning and Construction	248,014
20.218	National Motor Carrier Safety	237,540
20.600	State and Community Highway Safety	1,145,141
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	<u>11,352</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>1,749,097</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.310	Grants to States	125,656
45.312	National Leadership Grants	<u>25,214</u>
TOTAL INSTITUTE OF MUSEUM AND LIBRARY SERVICES		<u>150,870</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY		
66.454	ARRA - Water Quality Management Planning	84,220
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	1,984,381
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	81,720
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	64,745
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	32,154

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund, Continued
 Year Ended September 30, 2011

CFDA #	Federal Agency/Program	Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY, CONTINUED		
66.805	ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	48,450
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	19,757
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY		<u>2,315,427</u>
U.S. DEPARTMENT OF ENERGY		
81.041	State Energy Program	103,442
81.041	ARRA - State Energy Program	8,509,049
81.042	Weatherization Assistance for Low-Income Persons	110,749
81.042	ARRA - Weatherization Assistance for Low-Income Persons	412,053
81.127	ARRA - Energy Efficient Appliance Rebate Program (EEARP)	54,534
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG)	2,495
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	306,688
TOTAL U.S. DEPARTMENT OF ENERGY		<u>9,499,010</u>
U.S. DEPARTMENT OF EDUCATION		
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	982,436
84.169	Independent Living - State Grants	21,103
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	43,373
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	34,854
84.224	Assistive Technology	126,323
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	36,261
84.390	ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	231,823
84.394A	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	22,304,020
84.397A	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	622,137
84.398	ARRA - Independent Living State Grants, Recovery Act	22,523
84.410A	ARRA - Education Jobs Fund	5,793,370
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>30,218,223</u>
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	(411)
93.043	Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	5,524
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	248,055
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	320,005
93.052	National Family Caregiver Support, Title III, Part E	92,822
93.053	Nutrition Services Incentive Program	81,018
93.069	Public Health Emergency Preparedness	639,863
93.088	Advancing System Improvements to Support Targets for Healthy People 2010	64,679
93.110	Maternal and Child Health Federal Consolidated Programs	271,367
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	136,334
93.127	Emergency Medical Services for Children	109,486

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund, Continued
 Year Ended September 30, 2011

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED		
93.150	Projects for Assistance in Transition from Homelessness (PATH)	38,176
93.217	Family Planning - Services	231,511
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)	36,283
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	387,485
93.251	Universal Newborn Hearing Screening	201,627
93.268	Immunization Grants	443,246
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	746,602
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	101,004
93.507	Strengthening Public Health Infrastructure for Improved Health Outcomes	25,656
93.556	Promoting Safe and Stable Families	140,108
93.568	Low-Income Home Energy Assistance	153,674
93.569	Community Services Block Grant	521,943
93.575	Child Care and Development Block Grant	2,089,936
93.590	Community-Based Child Abuse Prevention Grants	222,973
93.630	Developmental Disabilities Basic Support and Advocacy Grants	280,890
93.631	Developmental Disabilities Projects of National Significance	62,446
93.643	Children's Justice Grants to States	64,208
93.645	Stephanie Tubbs Jones Child Welfare Services Program	136,933
93.667	Social Services Block Grant	39,985
93.669	Child Abuse and Neglect State Grants	56,381
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	101,508
93.710	ARRA - Community Services Block Grant	157,196
93.712	ARRA - Immunization	28,858
93.713	ARRA - Child Care and Development Block Grant	735,831
93.719	ARRA - State Grants to Promote Health Information Technology	119,702
93.723	ARRA - Prevention and Wellness - State, Territories and Pacific Islands	29,118
93.767	Children's Health Insurance Program	861,233
93.778	Medical Assistance Program	14,073,352
93.778	ARRA - Medical Assistance Program	1,215,308
93.889	National Bioterrorism Hospital Preparedness Program	244,439
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	75,774
93.917	HIV Care Formula Grants	47,255
93.940	HIV Prevention Activities - Health Department Based	69,722
93.941	HIV Demonstration, Research, Public and Professional Education Projects	4,796
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	73,978
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	3,366
93.958	Block Grants for Community Mental Health Services	83,546
93.959	Block Grants for Prevention and Treatment of Substance Abuse	396,384
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	94,107
93.991	Preventive Health and Health Services Block Grant	30,163
93.994	Maternal and Child Health Services Block Grant to the States	262,085
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		26,657,530

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund, Continued
 Year Ended September 30, 2011

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY		
97.012	Boating Safety Financial Assistance	357,444
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	294,403
97.024	Emergency Food and Shelter National Board Program	7,976
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	84,782
97.039	Hazard Mitigation Grant	51,422
97.042	Emergency Management Performance Grants	445,027
97.044	Assistance to Firefighters Grant	164,262
97.053	Citizen Corps	51,453
97.055	Interoperable Communications Equipment	7,811
97.073	State Homeland Security Program (SHSP)	1,818,464
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	879,881
97.089	Driver's License Security Grant Program	11,544
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		<u>4,174,469</u>
Unallocated cash receipts/expenditures		<u>(1,632,639)</u>
GRAND TOTAL		<u>\$ 104,805,001</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Capital Projects Funds
 Year Ended September 30, 2011

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Expenditures</u>
	U.S. DEPARTMENT OF THE INTERIOR	
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects:	
	FY96 - FY02 Appropriations Act Grant	\$ 2,191,010
	FY04 Appropriations Act Grant	<u>4,093,871</u>
		6,284,881
	Less local match	<u>(525,281)</u>
	TOTAL	<u>\$ 5,759,600</u>
Reconciliation:		
	Federal awards expenditures, as stated above	\$ 5,759,600
	Local match	<u>525,281</u>
		<u>\$ 6,284,881</u>
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	<u>\$ 6,284,881</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Public Works Grants Fund
 Year Ended September 30, 2011

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Expenditures</u>
	U.S. DEPARTMENT OF TRANSPORTATION	
20.205	Highway Planning and Construction	\$ 4,671,609
	U.S. DEPARTMENT OF HOMELAND SECURITY	
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>2,197,557</u>
		6,869,166
	Unallocated	<u>(789,658)</u>
	GRAND TOTAL	<u>\$ 6,079,508</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2011

(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*.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

(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, 2011 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, 2011.

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 2011, the CNMI has the following approved indirect cost rates:

Programs which directly charged utilities	4.98%
Programs not directly charging utilities	11.34%
ARRA programs which directly charged utilities	5.48%
ARRA programs not directly charging utilities	11.84%

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

(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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

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: | | | | | | | | | | | | | | | | | | | | | | | |
| | <table border="0"> <thead> <tr> <th style="text-align: left;"><u>CFDA Number</u></th> <th style="text-align: left;"><u>Federal Program</u></th> </tr> </thead> <tbody> <tr> <td>10.551</td> <td>Supplemental Nutrition Assistance Program</td> </tr> <tr> <td>10.557</td> <td>Special Supplemental Nutrition Program for Women, Infants, and Children</td> </tr> <tr> <td>20.205</td> <td>Highway Planning and Construction</td> </tr> <tr> <td>81.041</td> <td>State Energy Program</td> </tr> <tr> <td></td> <td>State Fiscal Stabilization Fund Cluster:</td> </tr> <tr> <td>84.394</td> <td>State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act</td> </tr> <tr> <td>84.397</td> <td>State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act</td> </tr> <tr> <td>84.410</td> <td>Education Jobs Fund</td> </tr> <tr> <td>93.778</td> <td>Medical Assistance Program</td> </tr> <tr> <td>15.875</td> <td>Economic, Social, and Political Development of the Territories: Capital Improvement Projects</td> </tr> </tbody> </table> | <u>CFDA Number</u> | <u>Federal Program</u> | 10.551 | Supplemental Nutrition Assistance Program | 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | 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 | 84.410 | Education Jobs Fund | 93.778 | Medical Assistance Program | 15.875 | Economic, Social, and Political Development of the Territories: Capital Improvement Projects | |
| <u>CFDA Number</u> | <u>Federal Program</u> | | | | | | | | | | | | | | | | | | | | | | | |
| 10.551 | Supplemental Nutrition Assistance Program | | | | | | | | | | | | | | | | | | | | | | | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | | | | | | | | | | | | | | | | | | | | | | | |
| 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 | | | | | | | | | | | | | | | | | | | | | | | |
| 84.410 | Education Jobs Fund | | | | | | | | | | | | | | | | | | | | | | | |
| 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: | \$3,000,000 | | | | | | | | | | | | | | | | | | | | | | |
| 11. | Auditee qualified as a low-risk auditee? | No | | | | | | | | | | | | | | | | | | | | | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

B. FINANCIAL STATEMENT FINDINGS

Reference Number	Findings	Refer Page #
2011-01	Cash Flows	20
2011-02	Revenues/Receipts - Tobacco Settlement Resources	21
2011-03 - 05	Purchases/Disbursements	22 - 26
2011-06 - 07	Cash and Cash Equivalents	27 - 31
2011-08 - 09	Receivables	32 - 34
2011-10	Tax Receivables - Division of Customs	35
2011-11	Advances	36
2011-12	Travel Advances	37 - 38
2011-13	Interfund Receivables and Payables	39
2011-14	Retirement Contributions - General Fund	40 - 41
2011-15	Tax Rebates Payable	42 - 45
2011-16	Other Liabilities and Accruals	46 - 47
2011-17	Compensated Absences	48
2011-18	Fund Balance - Encumbrances	49 - 53
2011-19	Journal Entries	54
2011-20	Schedule of Expenditures of Federal Awards	55
2011-21 - 22	CNMI Local Noncompliance	56 - 60

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2011-23	10.551	Allowable Costs/Cost Principles	\$ 20,894	61
2011-24	10.551	Cash Management	\$ -	62
2011-25	10.551	Period of Availability of Federal Funds	\$ 12,621	63
2011-26	10.551	Procurement and Suspension and Debarment	\$ 2,405	64
2011-27	10.551	Special Tests and Provisions	\$ -	65
2011-28	10.557	Eligibility	\$ 687	66
2011-29	15.875	Allowable Costs/Cost Principles	\$ -	67 - 68
2011-30	15.875	Procurement and Suspension and Debarment	\$ 507,329	69 - 74
2011-31	15.875	Subrecipient Monitoring	\$ -	75 - 76
2011-32	20.205	Procurement and Suspension and Debarment	\$ -	77
2011-33	20.205	Special Tests and Provisions	\$ 1,072,192	78 - 79
2011-34	81.041	Activities Allowed or Unallowed/Allowable Costs/Cost Principles	\$ 13,005	80
2011-35	84.394/84.397	Matching, Level of Effort, Earmarking	\$ -	81 - 82
2011-36	84.394/84.397	Reporting	\$ -	83
2011-37	84.394/84.397	Subrecipient Monitoring	\$ -	84 - 85
2011-38	84.410	Subrecipient Monitoring	\$ -	86
2011-39	93.778	Activities Allowed or Unallowed/Allowable Costs/Cost Principles	\$ 304,554	87 - 90
2011-40	93.778	Eligibility	\$ 2,756	91 - 92
2011-41	93.778	Reporting	\$ -	93
2011-42	All Major Programs	Allowable Costs/Cost Principles	\$ 12,995	94 - 97
2011-43	10.551/10.557			
	15.875/20.205/81.041	Equipment and Real Property Management	\$ -	98 - 99
2011-44	All Major Programs	Procurement and Suspension and Debarment	\$ -	100 - 101
2011-45 - 46	Nonmajor Programs	Allowable Costs/Cost Principles	\$ 353,522	102 - 105
2011-47	Nonmajor Programs	Procurement and Suspension and Debarment	\$ 1,920,701	106 - 108

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

B. FINANCIAL STATEMENT FINDINGS

Cash Flows

Finding No. 2011-01

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:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total assets	\$ 33,025,238	\$ 36,044,449	\$ 50,023,703	\$ 63,742,784	\$ 84,562,318
Total liabilities	\$ 378,503,883	\$ 352,769,340	\$ 322,606,682	\$ 299,614,851	\$ 283,813,688
Total fund deficit	\$ (369,393,928)	\$ (316,724,891)	\$ (272,582,979)	\$ (235,872,067)	\$ (199,251,370)
Total revenues	\$ 141,585,695	\$ 149,664,722	\$ 137,755,573	\$ 195,025,126	\$ 159,879,556
Total expenditures	\$ 153,664,192	\$ 194,871,222	\$ 182,674,263	\$ 224,417,008	\$ 193,136,802
Other financing sources (uses)	\$ (16,675,257)	\$ 1,064,588	\$ 8,207,778	\$ (7,228,815)	\$ (2,996,864)

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 2010.

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 \$193 million in 2007 to \$154 million in 2011 as noted above. Revenues have fallen at a faster rate than expenditures during this period but the cash flow effect was 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 expenditures to other funds of 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Revenues/Receipts - Tobacco Settlement Resources

Finding No. 2011-02

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 2011, the CNMI recognized \$1,613,107 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.

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 Audits of the CNMI for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The CNMI has agreed to proposed audit adjustments for 2011 and will request documentation from the trustee regarding accrual amounts in future years.

Proposed Completion Date: Fiscal year 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Purchases/Disbursements

Finding No. 2011-03

Criteria: Expenditures should be recorded when incurred.

Condition: Our tests of purchases/disbursements noted the following:

1. Of total medical related expenditures of \$14,616,928 at September 30, 2011, professional services of \$6,634,059 were tested. Of sixty-four items tested, three items, totaling \$2,898,123, 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.
2. Of fifty-seven nonpayroll General Fund expenditures tested aggregating \$11,965,946, the following items relate to the prior year:

<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
1352	62060	582217	\$ 800
1440	62250	581441	159
1812	62660	219780	15,631
1831	63070	973769	44,200
1831	63070	978065	29,958
1840	62060	978792	<u>69,888</u>
			\$ <u>160,636</u>

Management did not consider the amounts sufficiently material to the financial statements to warrant an adjustment.

3. Of nine nonpayroll General Fund travel expenditures tested aggregating \$61,233, the following items relate to the prior year:

<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
1764	62500	587010	\$ 876
1979	62500	590667	<u>10,962</u>
			\$ <u>11,838</u>

Management did not consider the amounts sufficiently material to the financial statements to warrant an adjustment.

4. Of twelve nonpayroll Special Revenue Fund - nonmajor funds expenditures tested aggregating \$373,771, the following item relates to the prior year:

<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
2082	62060	974493	\$ 5,772

Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-03, Continued

Condition, Continued:

5. Of total expenditures tested under the Capital Projects Fund - nonmajor funds of \$1,126,108, the following items relate to the prior year:

<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
T4205D	64670	977219	\$ 152,250
T9205H	62060	972890	<u>27,689</u>
			\$ <u>179,939</u>

Management did not consider the amounts sufficiently material to the financial statements to warrant an adjustment.

6. Of total expenditures tested under the Federal Grants Fund - nonmajor funds of \$3,002,446, the following items relate to the prior year:

<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
F9310C	64560	977099	\$ 8,327
H00441	63050	977563	444
H0767A	62060	967266	84,967
H0283M	62760	178917	8,735
H9575B	62060	969485	2,911
H9575E	63050	967922	2,500
I9605G	62060	976119	41,689
I98755	62060	976810	254,459
J8588C	62250	979773	898
J9042A	62690	968493	469
P5600D	64540	973649	19,500
T06007	64550	968443	<u>44,820</u>
			\$ <u>469,719</u>

Management did not consider the amounts sufficiently material to the financial statements to warrant adjustments.

Cause: The cause of the above condition is the lack of established policies and procedures to timely recognize 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 be timely reviewed and forwarded to DOF and that expenditures be 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 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-03, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action:

- Condition 1 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 a payable in the prior year outside of the grant with an offsetting receivable.
- Condition 2 We agree with this finding and will develop policies and procedures to decrease the time between entry of expenditure and payment.
- Condition 3 We agree with this finding and will develop policies and procedures to decrease the time between entry of expenditure and payment.
- Condition 4 We agree with this finding and will develop policies and procedures to decrease the time between entry of expenditure and payment.
- Condition 5 We agree with this finding and will develop policies and procedures to decrease the time between entry of expenditure and payment.
- Condition 6 We agree with this finding and will develop policies and procedures to decrease the time between entry of expenditure and payment.

Proposed Completion Date: Fiscal year 2012 for Condition 1 and ongoing for Conditions 2 through 6.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Purchases/Disbursements

Finding No. 2011-04

Criteria: An effective system of internal control requires that relevant supporting documents be filed and properly maintained.

Condition: Of fifty-seven General Fund nonpayroll expenditures tested aggregating \$11,965,946, the supporting journal voucher was not provided for four:

<u>Business Unit No.</u>	<u>Voucher No.</u>	<u>General Ledger Date</u>	<u>Amount</u>
1681	222921	10/01/10	\$ (951,086)
1681	222921	10/01/10	\$ (439,805)
1680	223233	09/30/11	\$ (949,723)
1680	223233	09/30/11	\$ 1,015,886

We determined that these journal vouchers related to the reversal of 2010 proposed audit adjustments accruing liabilities and reconciliations between accounts payable general and subsidiary balances.

Cause: The cause of the above condition is the lack of procedures and controls to properly maintain files.

Effect: The effect of the above condition is the risk that expenditures are not valid.

Recommendation: We recommend that DOF file and maintain all relevant documentation supporting validity and recording of expenditures in the proper period.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director of Finance & Accounting

Corrective Action: The expenditures in question are year end adjusting entries that reversed specific FY10 audit adjustments.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Purchases/Disbursements

Finding No. 2011-05

Criteria: Reconciliation to vendor statements should occur on a periodic basis.

Condition: Confirmation of payments to vendors noted four payments to one vendor that cleared the bank and that were not received by the vendor.

<u>Check Number</u>	<u>Amount</u>	<u>Bank Clearance Date</u>
371872	\$ 68,987	10/29/10
375384	43,179	02/07/11
379060	73,024	04/28/11
380632	<u>71,763</u>	06/13/11
	\$ <u>256,953</u>	

Cause: The cause of the above condition is the lack of adherence to established controls relating to purchases and disbursements.

Effect: The effect of the above condition is misappropriation. This condition has been referred to the Office of the Public Auditor.

Recommendation: We recommend the CNMI adhere to established internal controls relating to purchases and disbursements.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with this finding and will develop policies and procedures to decrease the time between entry of expenditure and payment.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Cash and Cash Equivalents

Finding No. 2011-06

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, 2011, bank reconciliations for the following accounts were prepared two to seven months after fiscal year end.

<u>Bank Code</u>	<u>Account Name</u>
11140	Washington Rep. Imprest Fund
11150	Superior Court NMI Imprest Fund
11170	Guam Medical Referral Imprest Fund
11200	Tinian Imprest Fund
11210	Rota Imprest Fund
11220	Supreme Court Imprest Fund
11310	CHC Medical Referral
11420	Payroll Account
11430	General Fund
11450	Animal Health Imprest Fund
11480	CNMI Lottery Commission Imprest Fund
11520	CNMI Credit Card
11540	Capital Improvement Projects
11570	Federal Grants
11572	CNMI Govt Federal Payroll
11820	Joeten-Kiyu Public Library
11830	Law Revision Commission Imprest Fund
11130	LNO Hawaii - Medical Referral
11230	Food Stamps
11410	Special Disability Imprest Fund

2. A bank reconciliation as of September 30, 2011 was not provided for bank code 11140.
3. The following cash account was confirmed by a bank but is not recorded:

<u>Reference</u>	<u>Bank Balance</u>
0003-9456	\$ 133,249

4. At September 30, 2011, the CNMI recorded cash clearing accounts of \$309,038. These accounts are expected to be zero at fiscal year-end. An audit adjustment was proposed to correct \$90,851 of the amount; however, correcting entries for the remaining \$218,187 could not be determined.
5. At September 30, 2011, a check which cleared prior to September 30, 2011 was improperly classified as an outstanding check in Superior Court Trust Fund Account under Agency Fund (Fund 7066).

<u>Bank Code</u>	<u>Amount</u>	<u>Check No.</u>	<u>Check Clearance Date Per Balance Sheet</u>	<u>Check Date Per Copy of Check</u>
11151	\$ 1,000	23859	09/22/11	09/22/11

6. Two bank accounts recorded at September 30, 2011 were not included in the confirmation received from the bank.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-06, Continued

Condition, Continued:

<u>Bank Code</u>	<u>Amount</u>
11130	\$ 10,488
11140	\$ 4,290

Cause: The cause of the above condition is the lack of adherence to policies and procedures related to 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 be recorded and that cash clearing accounts be 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 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance and Martha Camacho, DOF Finance & Accounting Reconciliation Manager

Corrective Action:

Condition 1 There has been only one relatively inexperienced staff in the reconciliation section since April 2010 due to staff turnover and 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 online 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 month end. In addition, coordination between the Reconciliation Section and the CNMI 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-06, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- Condition 2 The CNMI has not been able to obtain the bank statements for this account. Higher level of communication with the bank will be performed.
- Condition 3 The CNMI will determine the appropriate entity for this account and ensure it is recorded in the books.
- Condition 4 We disagree with this item as a clearing account should not necessarily be zero at year end. The cash clearing account is used to clear NAP food stamp coupons issued and redeemed. The \$90,851 balance represents coupons issued prior to year end which cleared the coupon account subsequent to year end. The \$218,000 was an unrecorded savings account internet transfer on 09/15/10. The CNMI Division of Treasury will contact the bank to determine the recipient of transfer.
- Condition 5 Reconciliation is almost current and this does not look like one of our checks and there may be a typo.
- Condition 6 The reconciliation process was behind schedule for several months due to high staff turnover and inexperienced staff. The Reconciliation Section is now fully staffed and training has been conducted. The reconciliation process is almost up to date and many of the problems and resulting findings such as these two instances will not occur in future audits. Bank code 11130 has been fully reconciled and is current. Bank Code 11140 is an old account that relates to the account of the former Washington Representative. Banks have changed and gathering records to resolve this issue is taking some time as all parties involved have to reconcile old records. Work is ongoing and should be addressed during fiscal year 2013.

Proposed Completion Date: Ongoing.

Auditor Response:

- Condition 4 We were not provided with documentation supporting the \$218,000 of unrecorded savings account disbursements. We were unable to verify the nature and validity of the aforementioned year-end disbursements.
- Condition 5 The cash in bank account under agency fund (fund no. 7066) is addressed to CNMI Treasurer - Office of the Clerk of Court.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Cash and Cash Equivalents

Finding No. 2011-07

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, 2011, \$702,056 of checks were held by the Division of Treasury. The breakdown by account is as follows:

<u>Bank Account GL No.</u>	<u>Account Name</u>	<u>Number of Checks</u>	<u>Amount</u>
1010.11430	General Fund	1	\$ 279
1010.11420	General Payroll Account	3	5,675
1010.11572	Federal Payroll Account	3	1,404
7063.11400	Rebate Trust Fund	4,645	675,658
7400.11401	Stimulus Tax Refund Account	48	19,040
		<u>4,700</u>	<u>\$ 702,056</u>

The Division of Treasury did not prepare a list of checks held at year-end. The above were reflected as outstanding checks in the September 30, 2011 bank reconciliations. Management did not consider the amounts sufficiently material to the financial statements to warrant an adjustment.

2. Additionally, two thousand, one hundred thirty-nine rebate trust fund checks held, aggregating \$458,651 included in the Rebate Trust Fund, represent checks returned by the post office. The checks have dates ranging from December 2000 through September 2011. Of this amount, \$11,605 was reported as outstanding checks in the September 30, 2011 reconciliation and as such, the Division of Treasury does not appear to have monitored these returned checks.
3. The September 30, 2011 General Fund bank reconciliation reflected stale-dated checks of \$56,788. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-07, Continued

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 through 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action:

- Condition 1 The CNMI 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.
- Condition 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.
- Condition 3 Checks were held by the Scholarship Office and not returned to the CNMI Division 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Receivables

Finding No. 2011-08

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, 2011 noted the following:

1. As of September 30, 2011, CHC receivables were \$203,107,017 of which \$182,069,300 date back to fiscal years 2010 and prior. An aging of the outstanding receivables by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 21,037,717
2010	52,327,882
2009	17,413,814
2008	8,890,511
2007	3,904,468
2006 and prior	<u>99,532,625</u>
	<u>\$ 203,107,017</u>

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, 2011 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, 2011.
3. A detailed report for one major group category (Private Companies-NR), with a September 30, 2011 receivable of \$18,297,336, was not provided.
4. 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 \$35,877,816.
5. The receivable schedule, excluding Medicaid charges, noted unusual increases in gross receivables as follows:

<u>Fiscal Year</u>	<u>At 09/30/11</u>	<u>At 09/30/10</u>	<u>Increase</u>
2010	\$ 52,327,882	\$ 6,844,500	\$ 45,483,382
2009	\$ 17,413,814	\$ 7,144,801	\$ 10,269,013
2008	\$ 8,890,511	\$ 8,474,898	\$ 415,613
2006	\$ 11,202,906	\$ 8,350,223	\$ 2,852,683

The increases are due to backlogs of billing files.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-08, 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 2010.

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 used by CHC for patient management and 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 to the Third Party Billing module had missing components that were generated by another module, the Patient Management System. CHC only added this module in August 2011. We will continue to add all necessary modules 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: Fiscal year 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Receivables

Finding No. 2011-09

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

Condition: As of September 30, 2011, the General Fund recorded returned checks receivable (account no. 1010.12800) of \$922,040, which is \$332,203 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 through 2010.

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 2011, the CNMI Division of Treasury was able to hire two additional staff to alleviate the problem and reconciliation will be assigned to one of the staff members.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Tax Receivables - Division of Customs

Finding No. 2011-10

Criteria: Excise tax collections should occur when the shipped items are transferred to taxpayers.

Condition: Outstanding tax receivables (including penalty and interest) were identified as of June 20, 2012 according to the Director of the Division of Customs, as follows:

<u>Description</u>	<u>Amount</u>
Tax	\$ 5,017,961
Tax	\$ 4,117,732
Interest	\$ 455,432
Penalty	\$ 444,797

The CNMI could not provide a listing of outstanding tax receivables as of September 30, 2011. The above receivables are not recorded in the CNMI general ledger.

Cause: The cause of the above condition is lack of established policies and procedures to monitor outstanding excise tax receivables.

Effect: The effect of the above condition is potential lost revenues.

Recommendation: We recommend that all receivables be timely collected.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jose Mafnas, Director, Customs Services

Corrective Action: Taxpayers have thirty days to pay their taxes after picking up shipments so there will always be a receivable. The system problems noted in the corrective action for Finding No. 2011-02 impacted the calculation and reporting of receivables as well. Most of the receivable balances noted are for one taxpayer and collection efforts have been ongoing.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Advances

Finding No. 2011-11

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

Condition: As of September 30, 2011, the General Fund recorded advances to vendors of \$722,784, of which \$407,436 date to fiscal year 2010 and prior. An aging of vendor advances by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 100,393
2009	79,870
2008	41,874
2007	47,163
2006	97,029
2005	30,464
2004	<u>10,643</u>
	\$ <u>407,436</u>

Further, two advances tested, aggregating \$151,236 (ref. nos. 549225 PL and 974645 PL), for the purchase of a vehicle and special operations supplies were received on or before September 30, 2011 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 through 2010.

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. The allowance for uncollectible advances is \$496,675 (account no. 1010.12431) which offsets all of the fiscal year 2010 and prior advances as well as a portion of the current advances

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Travel Advances

Finding No. 2011-12

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

Condition: As of September 30, 2011, the General Fund recorded travel advances of \$1,247,492, the majority of which were outstanding and unliquidated for more than ninety days. Travel advance details included credit balances of \$288,967.

Additionally, of two travel advances tested, the travel authorization, travel voucher supporting subsequent liquidation and invoices were not available. The two employees are not employed by the CNMI as of September 30, 2011.

<u>Employee Number</u>	<u>Travel Advance at September 30, 2011</u>
100595	\$ 5,851
167443	\$ 367

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

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

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

Prior Year Status: Liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2009 and in our previous management letter for fiscal year 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita Palacios, Director of Finance and Accounting

Corrective Action: DOF has a policy of collecting outstanding advances and travel expenses. If travel has not been cleared with DOF - Travel Section, payroll deductions begin and do not cease until required documentation is submitted and/or debt from travel has been paid in full. In addition, employees are required to clear their travel prior to separation from government employment. DOF has made it a practice to maintain these balances for certain periods of time because of the possibility and frequency with which certain employees return to government service. Upon returning to government service, payroll deductions begin once again.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-12, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

In the rare instances where travel is determined to be uncollectible, DOF will then write-off all amounts deemed uncollectible, but only after reasonable effort has been made to determine that the amount owed cannot be collected.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Interfund Receivables and Payables

Finding No. 2011-13

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

Condition: As of September 30, 2011, the general fund recorded payables to the following funds for which repayment is not expected within a reasonable time due to lack of available cash.

<u>Receivable Fund</u>	<u>Fund No.</u>	<u>Interfund Amount</u>	<u>Uncollectible</u>
Non-resident Worker Fund	2034	\$ 846,797	\$ 846,797
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 Audits of the CNMI for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: A General Fund transfer to the non-resident worker fund should be made to fund appropriations that have been made in excess of collections. Although revenues in the fund have declined drastically since the U.S. immigration takeover, the legislature has continued to make appropriations from this fund. A General Fund transfer needs to be made to the La Fiesta revolving fund as there are no longer any revenues and expenses exceeding the revenue. We will accept the auditors' recommendation regarding audit adjustments for these balances and will review the status in 2012.

Proposed Completion Date: 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Retirement Contributions - General Fund

Finding No. 2011-14

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

Condition: As of September 30, 2011, the CNMI recorded a contribution liability of \$167,782,744 of which \$155,424,921 dates back to fiscal year 2010 and prior. An aging of the outstanding contribution liability by fiscal year is as follows:

2011	\$ 12,357,824
2010	8,766,263
2009	14,725,353
2008	17,173,166
2007	17,274,970
2006 and prior	<u>97,485,168</u>
	\$ <u>167,782,744</u>

The Fund recorded total receivables from the CNMI, including penalties and interest, of \$250,459,996 as of September 30, 2011. Conversely, the CNMI recorded penalties and interest on unpaid contributions of \$50,372,932 due to the Fund. An audit adjustment was proposed to agree the total CNMI liability to the receivable recorded by the Fund as of September 30, 2011.

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 2010.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-14, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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

Public Law No. 15-70 was passed on June 14, 2007 increasing employee contributions to the defined benefit plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. This will decrease the required employer contribution by a similar amount. An actuarial study was completed in May 2010, as of October 1, 2008, incorporating the above plan changes and related assumptions, showed the actuarial accrued liability (AAL) declined from \$1,007.3 billion at October 1, 2005 to \$899.4 million and the unfunded AAL declined from \$547.2 million to \$529.9 million despite an investment portfolio loss of \$72.5 million from the 2008 market decline. In May 2010, the Retirement Fund and Executive Branch agreed to a plan that would define a corpus to be maintained, include a portion of earnings to be used for payment of pensions, proposed an initiative to be placed on the ballot for voters to approve issuance of pension obligation bonds to pay the outstanding liability and amend the required employer contribution to a dollar amount rather than a rate as the number of contributing members continues to decline. This plan was presented it 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.

The CNMI has entered into the U.S. Social Security system starting October 1, 2012 which will include all active employees. Public Law No. 17-82 allows active employees to withdraw from the defined benefit plan reducing future liabilities to only current retirees. An actuarial analysis is under way to determine the future impact on the fund.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Tax Rebates Payable

Finding No. 2011-15

Criteria: The *Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America* (the Covenant) adopted the Internal Revenue Code of the United States of America as the local income tax. Percentages of income tax due to the CNMI from CNMI source income are rebated at 90%, 70% or 50%, based on specified tax brackets for corporate and individual income taxes paid. The rebate liability is therefore estimated at the end of each fiscal year.

In addition, in accordance with Public Law 9-22, §1713, Interest on Overpayments, interest allowed by NMTIT §6611 on an overpayment shall be calculated only on the amount not already rebated.

Condition: At September 30, 2011, tax rebates payable aggregated \$57,087,301. The balance consists of the following:

Estimated 2011 liability based on fiscal year 2011 collections	\$ 6,704,069
Additional Child Tax Credit (ACTC)	8,346,507
2010 and prior rebates unpaid as of September 30, 2011	<u>42,036,725</u>
	<u>\$ 57,087,301</u>

Tests of the rebate payable accounts noted the following:

1. For unpaid tax year 2010 and prior rebates, we noted the following:
 - a. Of thirty-four unmatched filings tested relating to individual and corporate tax rebate payables of \$4,948,743, the following were noted:
 - i. For one item totaling \$1,024,000 (ref. C11-363 for tax year 2005), the rebate amount in the tax return was left blank and a different tax form was used.
 - ii. Five items totaling \$1,274,288 did not agree to tax returns by \$618,309. 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 data entry error. Details are as follows:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C11-184	2003	\$ 177,286	\$ 61,918	\$ 115,368
C11-531	2007	72,492	69,791	2,701
C11-104	2002	465,940	236,366	229,574
C11-182	2003	556,738	286,132	270,606
I11-6230	2003	<u>1,832</u>	<u>1,772</u>	<u>60</u>
		<u>\$ 1,274,288</u>	<u>\$ 655,979</u>	<u>\$ 618,309</u>

- iii. For one \$70,823 item (ref. C11-370 for tax year 2005), the tax return was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-15, Continued

Condition, Continued:

- iv. One item totaling \$5,519 (ref. I11-32826 for tax year 2008) was not a valid payable but was included in the year-end tax rebate payable report.
- b. Of thirty-nine assessed and matched filings tested relating to individual and corporate tax rebate payables of \$2,850,326, the following were noted:
 - i. For two items totaling \$1,298,000, the rebate amount in the tax return was left blank and a different tax form was used. Details are as follows:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C11-225	2003	\$ 649,000
C11-556	2007	<u>649,000</u>
		\$ <u>1,298,000</u>

- ii. Two items totaling \$131,957 did not agree to tax returns by \$2,683. The variances were due to incomplete tax forms or a computer glitch in the tax payable computation. Details are as follows:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C11-68	2001	\$ 131,000	\$ 128,270	\$ 2,730
I11-23115	2005	<u>957</u>	<u>1,004</u>	<u>(47)</u>
		\$ <u>131,957</u>	\$ <u>129,274</u>	\$ <u>2,683</u>

- iii. For one \$516 item (ref. I11-4776 for tax year 2003), the tax return was not provided.
2. Of eighteen accounts totaling \$1,217,135 uploaded to the JDE system for payment, the following were noted:
- a. One \$166 item (document no. PV 478837) did not agree to the amount in the detailed schedule of \$157.
 - b. One \$103,248 item (document no. PV 529204) had no payable in the detailed schedule provided. The CNMI tax system indicates check no. 27349 for \$103,248 dated 12/28/07 was voided on 01/04/08. Our tests noted that the correct net overpayment amount is \$12,248.
 - c. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-15, Continued

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 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action: In fiscal year 2009, the Division of Revenue and Taxation implemented a rebate payable review procedure to be performed 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 because of the need for a custom-made report to be produced before any review is performed. 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 and payable unpaid) and do away with the custom-made report. This enhancement will include other payable validations such as when a payable was paid but not timely posted back to the CNMI Tax system from the JDE to reflect that the 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 amounts and for returns with an initial status showing a tax due or payment made on a return. The Division of Revenue and Taxation will add another level of review by comparing the rebate payable amount as indicated on the return versus the amount of rebate in the rebate payable report. Any discrepancy outside a pre-established threshold amount would be flagged for review and resolution before a payment is made.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-15, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

The Division of Revenue and Taxation is currently in the development stage for the implementation of the Electronic Document Management System (EDMS) that will eventually scan and image 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 a 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 of Finance. 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 Division of Revenue and Taxation 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 amounts. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Other Liabilities and Accruals

Finding No. 2011-16

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 \$2,233,704 of unrecorded liabilities at September 30, 2011. Details by fund are as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 284,157
Federal Grants	981,673
DOI Capital Projects	58,205
Nonmajor Capital Projects	739,342
Nonmajor Special Revenue	<u>170,327</u>
	\$ <u>2,233,704</u>

The above condition was corrected through a proposed audit adjustment.

Further, supporting invoices requested were not provided for the following expenditures, and we are unable to determine whether such expenditures relate to fiscal year 2011:

<u>Voucher No.</u>	<u>Amount</u>
230562	\$ 9,360
602866	1,057
602869	816
602871	1,057
602872	1,057
602873	1,057
602874	1,057
602876	1,057
613592	303
854138	237
988591	407
1002642	438
1004662	10,895
1004664	32,430
1041878	800
1057834	31,237
1057835	41,939
1066399	400
1070721	37,843
1074317	2,927
1074318	5,793
1074319	6,459
1074322	4,892
1074326	3,158
1074327	2,927
1074328	5,793
1074329	6,459
1074332	5,030
1075383	85
1075720	2,308
1075887	90
1075888	86
1077044	23,950
22129051	<u>100,000</u>
	\$ <u>343,404</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-16, Continued

Condition, Continued:

Management did not consider the amounts sufficiently material to the financial statements to warrant an adjustment.

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

Prior Year Status: A lack of appropriate cut-off procedures and controls was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 through 2010.

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. The dollar amount of unrecorded liabilities declined from \$4 million in 2010 to \$2.2 million in 2011; however, it appears that there will always be audit adjustments for this as our cut-off is sixty days after year end (11/30/11) while the auditors' cut-off appears to extend to the end of their field work.

Proposed Completion Date: Ongoing.

Auditor Response: We extended the test of subsequent disbursements up to ten months after year end as numerous unrecorded liabilities were noted.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Compensated Absences

Finding No. 2011-17

Criteria: Accrued annual leave is limited to 45 days or 360 hours, as amounts in excess of 45 days transfer to sick leave at the end of the leave year. Further, an effective system of internal control requires that accrued annual leave for employees who are separated from the entity are identified and reviewed for validity. The payroll records should be timely updated for annual leave balances that do not represent valid obligations.

Condition: At September 30, 2011, compensated absences payable per the subsidiary ledger aggregated \$8,398,339. Of this amount, \$1,119,020 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$529,787 represents accrued leave in excess of the 45 days/360 hours limit. Additionally, the balance at September 30, 2011 is net of individual debit balances of \$125,456.

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 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 through 2010.

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 former 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, the amount noted above is as of 09/30/11. Excess annual leave balances are transferred to sick leave on a calendar year basis. In all cases, we have agreed to the audit adjustments to adjust the financial statement effect of the above.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Fund Balance - Encumbrances

Finding No. 2011-18

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

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

1. For the Department of the Interior (DOI) Capital Projects Fund encumbrances:
 - a. At September 30, 2011, the subsidiary ledger balance of the DOI Capital Project Fund encumbrances of \$7,946,540 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 \$4,058,504 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 \$1,229,227 have been outstanding for more than five years. We did not evidence DOF review of long outstanding encumbrances.
 - c. Of twenty-four DOI Capital Projects Fund encumbrances tested, aggregating \$2,122,607, the following exceptions were noted:

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

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document No.</u>	<u>Encumbrance Amount</u>
4044	4863	304837-OS CO #3	\$ (125,000)
4044	4863	304837-OS CO #2	\$ 294,650

The related projects for the two items noted above were completed at September 30, 2011. This condition was corrected through proposed audit reclassifications.

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

<u>Fund</u>	<u>Business Unit No.</u>	<u>General Ledger Account No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
4044	4863	62060	304837-OS	\$ 54,391	07/20/00
4045	4901	64320	70169-OS	\$ (245,591)	10/28/03
4045	4910	64320	70152-OS	\$ (139,225)	02/14/00
4045	4934	64320	60328-OS	\$ (2,504)	11/30/96
4052	5122	64280	144-OS	\$ 196,304	06/10/05
4052	5164	64320	123-OS	\$ 287,920	07/28/05
4052	5175	62060	362-OS	\$ 91,673	06/08/07
4058	5615	64520	462-OS	\$ (198,420)	11/09/07

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-18, Continued

Condition, Continued:

- iii. The following variance was noted between the amount initially recorded and the actual obligating document:

<u>Fund/Business Unit</u>	<u>Obligating Document No.</u>	<u>Per General Ledger</u>	<u>Per Obligating Document</u>	<u>Variance</u>
4052.5145	311-OS	\$ 867,109	\$ 679,236	\$ 187,873

- iv. The following variance exists between the amount encumbered and expectation as a fiscal year 2012 expenditure was already deducted from the fiscal year 2011 encumbrance.

<u>Fund/Business Unit</u>	<u>Obligating Document No.</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>
4058.5664	565-OS	\$ 173,911	\$ 222,823	\$ (48,912)

- v. The following variance exists between the amount encumbered and expectation due to cancellations made during the year.

<u>Fund/Business Unit</u>	<u>Obligating Document No.</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>
4058.5654	533-OS	\$ 246,960	\$ -	\$ 246,960

- vi. The following fiscal year 2011 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2011 encumbrances:

<u>Fund/Business Unit/ General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
4058.5629.64280	519-OS	1014033 OV	\$ 47,259
4058.5611.64320	546-OS	1059253 OV	\$ 70,644

2. Of fifteen Federal Grants Fund encumbrances tested, aggregating \$2,093,131, the following were noted:

- a. An aging of the reserve for encumbrances by fiscal year indicates encumbrances of \$173,492 have been outstanding for more than five years. We did not evidence of DOF review of long outstanding encumbrances.

- b. The following fiscal year 2011 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2011 encumbrances:

<u>Fund/Business Unit/ General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
2022.2022A.62060	525276-OS	1053023 PV	\$ 15,260
2022.E9041S.62060	523533-OS	1052480 PV	\$ 107,900
2022.E9041S.62060	523543-OS	1055985 PV	\$ 42,339

This condition was corrected through a proposed audit adjustment.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-18, Continued

Condition, Continued:

- c. The following variances exist between amounts encumbered and expectations due to cancellations of encumbrance:

<u>Fund/Business Unit/ General Ledger Account No.</u>	<u>Obligating Document No.</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>
2020.A24750.62060	535113-OC	\$ 63,000	\$ -	\$ 63,000
2020.C9300B.64499	569-OS	\$ 168,514	\$ -	\$ 168,514
2020.J4067I.63050	447091-OA	\$ 23,370	\$ -	\$ 23,370
2020.P5600D.63050	523104-OP	\$ 3,915	\$ -	\$ 3,915

This condition was corrected through a proposed audit adjustment.

- d. The following variances exist between amounts encumbered and expectations due to various fiscal year 2012 expenditures that were already deducted from fiscal year 2011 encumbrances:

<u>Fund/Business Unit/ General Ledger Account No.</u>	<u>Obligating Document No.</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>
2022.2022A.62060	525276-OC	\$ 85,088	\$ 146,128	\$ (61,040)
2022.C15580.62060	531071-OC	\$ 475,576	\$ 594,470	\$ (118,894)
2022.E9041S.62060	523543-OC	\$ 237,470	\$ 435,558	\$ (198,088)
2022.S10FMS.62060	537855-OC	\$ 271,257	\$ 967,421	\$ (696,164)

This condition was corrected through a proposed audit adjustment.

- e. The obligating/encumbering document for one item (ref. 536398-OP fund/business unit no. 2020.H15681) for \$2,500 was not provided.

3. Of fifteen General Fund encumbrances tested, aggregating \$3,281,587, the following were noted:

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

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document No.</u>	<u>Encumbrance Amount</u>
1010	1975	283376-OT	\$ 1,309

We were unable to verify if this is a valid encumbrance at September 30, 2011.

- b. The obligating/encumbering document relating to medical referral for the items below were not valid encumbrances at September 30, 2011 per representation of the Medical Referral Office:

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document No.</u>	<u>Encumbrance Amount</u>
1010	1975	287071 OT	\$ 46,100
1010	1975	292566 OT	\$ 762
1010	1975	537299-OM	\$ 470,123
1010	1978	292418 OT	\$ 140

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-18, Continued

Condition, Continued:

4. Of four Special Revenue Fund encumbrances tested, aggregating \$494,514, the following were noted:

- a. The following variance exists between the amount encumbered and expectation due to the untimely updating of encumbrances for actual expenditures:

Fund/Business Unit/ General Ledger Account No.	Obligating Document No.	Per General Ledger	Per Expectation	Variance
2030.3027.63050	527821-OA	\$ 100,957	\$ -	\$ 100,957

- b. The following variances exist between amounts encumbered and expectations. This condition arose because fiscal year 2012 expenditures had already been deducted from the fiscal year 2011 encumbrances:

Fund/Business Unit/ General Ledger Account No.	Obligating Document No.	Per General Ledger	Per Expectation	Variance
2080.2082.62060	535967-OC	\$ 156,222	\$ 183,790	\$ (27,568)
2080.2082.62470	474876-OC	\$ 348,435	\$ 696,435	\$ (348,000)

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

- a. An aging of the reserve for encumbrances by fiscal year indicates encumbrances of \$1,283,752 have been outstanding for five years or more.

- b. Of ten nonmajor Capital Projects Fund encumbrances tested aggregating \$2,666,988, the following were noted:

- i. The following variances exist between amounts encumbered and expectations due to fiscal year 2012 expenditures deducted from fiscal year 2011 encumbrances:

Fund/Business Unit/ General Ledger Account No.	Obligating Document No.	Per General Ledger	Per Expectation	Variance
4043.T9205H.64670	521210-OC	\$ 584,368	\$ 2,658,607	\$ (2,074,239)

This condition was corrected through a proposed audit adjustment.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-18, Continued

Condition, Continued:

- ii. The following fiscal year 2011 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2011 encumbrances:

<u>Fund/Business Unit/General Ledger Account No.</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
4043.T4205D.64670	503673-OC	1061707 PV	\$ 329,916
4043.T9205H.64670	521210-OC	1019453 PV	\$ 114,007
4043.T9205H.64670	521210-OC	1019455 PV	\$ 71,508
4043.T9205H.64670	521210-OC	1053014 PV	\$ 137,107
4043.T9205H.64670	521210-OC	1054458 PV	\$ 80,111
4043.T9205H.64670	521210-OC	1061353 PV	\$ 132,860
4043.T9205H.64670	521210-OC	1054457 PV	\$ 99,740

This condition was corrected through a proposed audit adjustment.

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 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 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 Audits of the CNMI for fiscal years 2009 and 2010.

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 we are in the process of reviewing and correcting balances. This will include reconciling advance payments and travel encumbrances with the outstanding advance accounts. For condition 1, encumbrances are mainly construction contracts many of which were carried over from the old FMS system and it has been physically difficult adjusting the detail. We are upgrading our FMS system and this will be one of the items we will be discussing with the vendor. For conditions 2, 3, 4 and 5, many of the details relate to unrecorded liabilities and subsequent cancellations that were corrected through audit adjustments. The FMS system does not support “as of” encumbrance balance reports so year end outstanding encumbrance balance reports must be run after close of business on 09/30 and prior to the new fiscal year encumbrances being entered. This was not performed for 09/30/11 but at a later date, resulting in numerous discrepancies.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Journal Entries

Finding No. 2011-19

Criteria: All journal entries should be reviewed and approved prior to input into the general ledger. Adequate documentation supporting the entry should be attached to allow effective review. Journal entries should be numbered and these numbered references should be posted to the general ledger.

Condition: Tests of journal entries noted the following:

1. Of thirteen journal entries tested, ten journal entries were entered without journal vouchers and appropriate supporting documentation.

<u>Document Code</u>	<u>Journal Entry No.</u>
JE	8813
JE	8842
JE	9024
BE	192307
&&	222059
&&	222063
&&	222068
&&	222921
&&	222955
&&	222972

2. One journal entry (JE no. && 223252) does not balance by \$660,231.
3. Gaps in the numerical sequence of journal entries were noted.

Cause: The cause of the above condition is the lack of adherence to established controls related to the processing and recording of information in the general ledger.

Effect: The effect of the above condition is potential misstatement of account balances.

Recommendation: We recommend the CNMI apply established controls and procedures to appropriately process and record information in the general ledger and the numerical control of journal entries.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director of Finance & Accounting

Corrective Action: Journal entry #s 222955 and 222972 are bank reconciliation adjustments and supporting documents were provided to the auditors. All other entries are standard year end audit adjustments.

Proposed Completion Date: Ongoing.

Auditor Response: Journal vouchers for journal entry nos. 222955 and 222972 were not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Schedule of Expenditures of Federal Awards

Finding No. 2011-20

Criteria: In accordance with applicable federal regulations, the auditee shall prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipient from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

Condition: The SEFA for the period ended September 30, 2011, includes unallocated amounts of \$1,632,639 and \$789,658 for the Federal Grants Fund and the Public Works Grants Fund, respectively. The amounts relate to unidentified grants revenue and miscellaneous adjustments. Related CFDA or other identifying numbers could not be provided.

Cause: The cause of the above condition is the lack of awareness and incorporation of applicable regulations. No questioned costs are presented as the amounts are negative.

Effect: The effect of the above condition is noncompliance with the federal requirements on the SEFA.

Recommendation: We recommend that CNMI prepare the SEFA in accordance with the above federal requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We agree with the finding and will reconcile the SEFA to the general ledger in the future.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

CNMI Local Noncompliance

Finding No. 2011-21

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

Condition: On October 10, 2010, the CNMI passed Public Law 17-21 as the Appropriations and Budget Authority Act for 2011. On April 4, 2011, the CNMI Governor mandated a proportional reduction of 9.76% in the continuing budget authority. On April 19, 2011, the Office of Management and Budget revised the proportional reduction to 7.58%. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2011.

	Budgeted Level of <u>Expenditures</u>	Actual <u>Expenditures</u>	Over- <u>Expenditure</u>
Executive Branch:			
Attorney General	\$ 1,975,590	\$ 2,375,155	\$ 399,565
Public Health	\$ 27,248,428	\$ 48,541,431	\$ 21,293,003
Public Safety	\$ 6,647,446	\$ 7,011,067	\$ 363,621
Second Senatorial District - Tinian:			
Revenue and Taxation	\$ 4,846	\$ 7,948	\$ 3,102
Procurement and Supply	\$ 33,955	\$ 34,165	\$ 210
Fish and Wildlife	\$ 48,776	\$ 48,955	\$ 179
First Senatorial District - Rota:			
Municipal Council	\$ 8,183	\$ 121,791	\$ 113,608
Finance and Accounting	\$ 81,685	\$ 89,141	\$ 7,456
Revenue and Taxation	\$ 39,268	\$ 40,350	\$ 1,082
Procurement and Supply	\$ 28,974	\$ 34,361	\$ 5,387
Customs Service	\$ 104,099	\$ 129,426	\$ 25,327
Economic Development	\$ 167,645	\$ 181,388	\$ 13,743
DPS Police	\$ 597,481	\$ 675,440	\$ 77,959
Agriculture	\$ 401,917	\$ 446,091	\$ 44,174
Soil and Water Conservation	\$ 16,491	\$ 19,587	\$ 3,096
Operations and Maintenance	\$ 449,369	\$ 499,730	\$ 50,361
Rota Public Library	\$ -	\$ 12,167	\$ 12,167
Rota Health Center	\$ 1,127,664	\$ 1,404,652	\$ 276,988
Government Utilities	\$ 6,898,596	\$ 11,413,506	\$ 4,514,910
Judicial Branch:			
CNMI Superior Court	\$ 1,746,318	\$ 1,789,205	\$ 42,887
CNMI Supreme Court	\$ 806,563	\$ 875,894	\$ 69,331
Law Revision Commission	\$ 133,731	\$ 147,291	\$ 13,560
Administrative	\$ 449,728	\$ 494,223	\$ 44,495
Independent Programs:			
Northern Marianas Protection & Advocacy Systems, Inc.	\$ -	\$ 3,280	\$ 3,280
Third Senatorial District - Saipan:			
Municipal Council	\$ 56,291	\$ 60,077	\$ 3,786
Office of the Public Auditor	\$ 889,425	\$ 1,126,917	\$ 237,492
Boards and Commissions:			
Board of Professional Licensing	\$ 93,325	\$ 94,093	\$ 768
Board of Elections - Special Election	\$ -	\$ 6,803	\$ 6,803
Judgments	\$ 128,850	\$ 157,534	\$ 28,684
Tourism	\$ 2,390,899	\$ 6,284,578	\$ 3,893,679
Disaster Expenditures	\$ 119,152	\$ 210,074	\$ 90,922

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-21, Continued

Recommendation: We recommend that 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 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action: In 2011, the CNMI Government started the fiscal year at \$132,565,000. Revenue levels dropped significantly and the Government was forced to adjust the budget to \$122,000,000. Austerity measures were implemented immediately to address the shortfall. Actual revenue still fell well short of the projected revenue due to an extreme economic downturn. Close monitoring of budget versus actual expenditures continue and plans to address any additional downturn in the economy have been prepared.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

CNMI Local Noncompliance

Finding No. 2011-22

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

Further, 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 Division of Procurement and Supply (P&S) Director for approval.

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

In addition, for contracts related to extension of services, the P&S Director may include an option clause in solicitations and contracts which will enable the government to require continued performance of any services within the limits and at the rates specified in the contract. The option provision may be exercised more than once, but the total extension of performance thereunder shall not exceed six months.

Condition: Of fifty-seven General Fund nonpayroll expenditures tested aggregating \$11,965,946, the following were noted:

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

<u>Business Unit No.</u>	<u>Obligating Document No.</u>	<u>General Ledger Date</u>	<u>APV No.</u>	<u>General Ledger Amount</u>
1812	JE	09/30/11	219780	\$ 15,631
1826	525096 OP	03/02/11	229066	9,380
1840	JE	09/30/11	219724	615,965
1978	431133 OC	07/13/11	595825	1,500
1979	Unknown	03/22/11	589349	<u>456</u>
				\$ <u>642,932</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-22, Continued

Condition, Continued:

2. Price quotations were not obtained for the following which qualifies under small purchase procedures:

<u>Business Unit No.</u>	<u>Obligating Document No.</u>	<u>General Ledger Date</u>	<u>APV No.</u>	<u>General Ledger Amount</u>
1770	538015 OM	09/29/11	600335	\$ 3,419
1828	291421 OT	03/09/11	981135	6,138
1978	Voucher	07/14/11	595866	3,966
				<u>\$ 13,523</u>

3. The extension of services for one contract exceeded six months.

<u>Business Unit No.</u>	<u>Obligating Document No.</u>	<u>General Ledger Date</u>	<u>APV No.</u>	<u>General Ledger Amount</u>
1335	479411 OC	04/19/11	590488	\$ 26,736

Of twelve Special Revenue Fund nonpayroll expenditures aggregating \$373,771, the following were noted:

- a. For one disbursement (or 8%) of \$4,500 (PV no. 971315), the related contract no. 522692-OC was procured using sole source procurement. Although a written justification for the sole source was obtained, there was inadequate documentation supporting specific efforts made to obtain competition and whether other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected.
- b. For one disbursement (or 8%) of \$24,912 (PV no. 584280), rebidding did not occur for contract no. 479411-OC that had expired and which carried out four change orders exceeding more than six months extension.

Cause: The cause of the above condition is the failure to enforce adherence to established CNMI procurement regulations and inadequate sole source justification documentation, the lack of awareness and incorporation of applicable regulations and weak controls over small purchase procedures and change orders.

Effect: The effect of the above conditions is noncompliance with procurement requirements.

Recommendation: We recommend that the CNMI comply with procurement regulations. We also recommend that the CNMI make efforts to obtain competition and provide documentation that other contractors and sources were considered, and why they were not selected. Further, we recommend that efforts are made to rebid out a contract prior to its expiration unless renewals are contained in such contracts. Any renewal options should be made in accordance with applicable procurement regulations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-22, Continued

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 information is stored. 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: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2011-23
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
Area: Allowable Costs/Cost Principles
Questioned Costs: \$20,894

Criteria: The CNMI received approved indirect cost rates for fiscal year 2011 from the U.S. Department of the Interior. These rates are based on total direct costs, less capital expenditures and pass-through funds. The fixed carryforward rate of 4.98% applies to the Nutrition Assistance Program (NAP).

Condition: We found that NAP did not apply the correct cost rate of 4.98%, resulting in an overcharge of \$20,894. Please see calculation below:

Total expenditures	\$ 11,889,287
Less capital outlays and program benefits	<u>10,621,919</u>
Administrative expenses	1,267,368
Less indirect cost per the general ledger	<u>(80,024)</u>
Base	1,187,344
Multiplied by indirect cost rate	<u>4.98%</u>
Expected indirect cost	59,130
Actual indirect cost	<u>80,024</u>
Variance (overcharge)	\$ <u>20,894</u>

Cause: The cause of the above condition is incorrectly applying the indirect cost rate requirements.

Effect: The effect of the above condition is questioned costs of \$20,894.

Recommendation: We recommend that NAP ascertain that indirect cost rates are applied correctly to the approved fiscal year.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director of Finance & Accounting

Corrective Action: We agree with this finding and DOF will comply with all grant or contract terms and conditions. Management will review all submissions closely and ensure compliance.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24
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: A system of control provides for adequate monitoring and evidence of approval of payment requests prior to drawdown to assess the accuracy and allowability of transactions and determinations.

Condition: There was no evidence of supervisory approvals of cash drawdowns for program benefits.

Cause: The cause of the above condition is the lack of policies and procedures to monitor and evidence approval of cash drawdowns.

Effect: The effect of the above condition is the possibility of inaccurate requests for cash drawdowns.

Recommendation: We recommend that the CNMI strengthen controls so that monitoring and evidence of approval are documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We disagree with this finding due to the fact that there is a specific process for processing all invoices/transactions of the Central Government. When invoices are submitted to the Division of Finance and Accounting, all invoices are entered into the system by staff of the Accounts Payable Section. Every two weeks, staff of the Federal Section prepare a fund status report and all invoices that have been vouchered for payment will appear on that report. Upon completion of that report, the report is provided to the Supervisor of that section and she reviews the report for accuracy and compliance with federal grants. The Federal Grants Supervisor, the Treasurer and the Secretary of Finance share the responsibility of doing drawdowns. Each of these individuals holds a supervisory/managerial position and the supervisory review and approval are performed by these individuals.

Proposed Completion Date:

Auditor Response: Drawdowns on NAP are made through an AP voucher worksheet. We found only the preparer's signature on several drawdowns with no evidence of approval by either the Assistant Director of Finance, Treasurer or Secretary of Finance.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
Area: Period of Availability of Federal Funds
Questioned Costs: \$12,621

Criteria: NAP has ninety days after the grant period to liquidate all obligations, provided such obligations have been encumbered during the fiscal period.

Condition: NAP had obligations for the grant period 09/30/10 of \$12,621 which were liquidated through disbursement after 12/31/10.

Cause: The cause of the above condition is the lack of coordination to liquidate all obligations ninety days after the grant period.

Effect: The effect of the above condition is questioned costs of \$12,621.

Recommendation: We recommend that NAP ascertain that all obligations for the grant period are liquidated ninety days after the fiscal year end.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita Palacios, Director of Finance and Accounting

Corrective Action Plan: There was a change in personnel at this time and a delay of payment happened as a result. The process has been streamlined and training has occurred for all new and existing personnel. Significant steps have been taken to reduce the turnaround time from receipt of request for payment, drawdown and resulting payment of vendor(s). DOF will ensure that all obligations for the grant period are liquidated within the ninety day period after the fiscal year ends.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-26
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
Area: Procurement and Suspension and Debarment
Questioned Costs: \$2,405

Criteria: According to applicable regulations, a State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts.

Condition: Of three nonpayroll items tested, one (ref. PV no. 995157) amounting to \$2,405 was awarded through a contract which included a local geographical preference clause.

Cause: The cause of the above condition is the lack of policies and procedures to ascertain that all procurements of goods and services exclude the local bidder preference clause.

Effect: The effect of the above condition is noncompliance with procurement regulations and potential restriction on the manner of conducting procurement. Questioned costs of \$2,405 result as the projected cost is greater than \$10,000.

Recommendation: We recommend that the CNMI verify that contracts funded by federal awards meet compliance with all applicable rules and regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: NAP Administrator

Corrective Action: An unintended delay in the announcement of Invitation to Bid (ITB) caused the delay in obtaining a successor for NAP's fiscal year 2012 printing agent. During such process, the fiscal year 2011 contractor services' contract expired on 09/30/11. Extending the fiscal year 2011 printing agent's contract for an additional two months was in the best interest of NAP. The printing of NAP coupons could not be disrupted or no benefits could be issued to eligible households. A change order was requested and approved. No bidding was required during the change order process; therefore, the conditions raised in this finding have been substantiated by NAP. A successful acquisition of a fiscal year 2012 printing agent was executed in December 2012.

With the unintended delay in the announcement of the ITB, NAP declares to adequately plan and implement future ITB's so that incidents in extending contracts due to NAP delays are not repeated.

Proposed Completion Date:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-27
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: NAP's Manual of Operations on Food Stamps for Local Use Only, Item F, states that the Retail & Redemption (RR) Unit shall authorize food stores to accept NAP food stamp coupons only if they carry 10% of their declared food sales in local foods. To accomplish this, the RR Unit shall conduct periodic onsite inspections of authorized retailers and file written reports.

Condition: Of fifteen retailers tested, we noted one retailer (FS no. 2325) for which the RR Unit did not conduct an onsite inspection to determine if the retailer was carrying 10% of food sales in local foods.

Cause: The cause of the above condition is the lack of monitoring requirements of onsite inspections of authorized retailers.

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

Recommendation: We recommend that the CNMI strengthen procedures so that monitoring requirements of retailers are being performed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eric C. Sablan, Acting RR Unit Supervisor

Corrective Action: Authorized retailer FS-2326 was initially accepted as a NAP authorized retailer on June, 2, 2011 and withdrew from the program by self-terminating on August 1, 2011. According to NAP's Manual of Operations, Part X, Section J, Item #7, the RR Unit official shall conduct onsite inspections on at least five authorized retailers each month. In one year, a total of sixty onsite inspections are required to be conducted. There were a total of one hundred, six authorized retailers for fiscal year 2011. During the brief participation, authorized retailer FS-2326 was not included in the sixty authorized retailers subject to onsite inspections for fiscal year 2011.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-28
 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: \$687

Criteria: In accordance with applicable eligibility requirements, a rights and obligations document must be signed by the certifier and income verifier.

Condition: Our tests of forty-four participants noted that a rights and obligations document for two participants (or 4.5%) was not signed by the certifier:

<u>Food Instrument No.</u>	<u>WIC ID No.</u>	<u>Issue Date</u>	<u>Date Used</u>	<u>Amount Tested</u>	<u>Actual Questioned Costs</u>
391501	10010004166	09/14/10	10/18/10	\$ 40	\$ 356
498610	10010006819	02/24/11	05/04/11	\$ 40	<u>331</u>
					\$ <u>687</u>

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 \$687 since the projected costs exceeded \$10,000.

Recommendation: We recommend that WIC complete case files supporting eligibility determinations.

Prior Year Status: The lack of controls over the eligibility process was reported as a finding in the Single Audits of the CNMI for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ruth Sablan, WIC Clinic Manager and Ponce Rasa, WIC Quality Assurance Coordinator

Corrective Action: The WIC Clinic Manager will continue to monitor case files to ensure case files supporting eligibility are complete. Additional review procedures on clinic case files will be performed by the WIC Quality Assurance Coordinator at the first week of each month to determine ongoing compliance with this requirement. Any discrepancies found by the WIC Quality Assurance Coordinator will be addressed to the WIC Clinic Manager for discussion in clinic meetings/trainings.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-29
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Grant Numbers: CNMI-CIP-2008-4 and CNMI-CIP-2010-1
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$-0-

Criteria: Payroll expenditures must be supported by activity reports signed by the employee, principal investigator, or responsible official(s) to verify that the work was performed. Further, if an employee spends less than 100% of his or her time on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program served, unless an alternative method has been authorized by the funding agency.

Condition: Of six payroll expenditures tested aggregating \$22,719, of a population of \$254,776, we noted the following:

1. For one payroll expenditure (or 17%), a time card was not provided. A questioned cost is not presented because hours are supported by an approved timesheet summary.

<u>Business Unit</u>	<u>Pay Period Ended</u>	<u>Employee No.</u>	<u>Gross Pay</u>
5649	07/30/11	403442	\$ 3,846

Further, there are no contemporaneous records to support a 75% cost allocation of the above employee. The estimated salary charged to the program during the year is \$75,000, which is equivalent to 75% of the annual salary. No questioned cost is presented at this condition for salaries unrelated to the program since such could not be determined based on available evidence.

2. For five payroll expenditures (or 83%), time cards were not signed by the employee. No questioned cost is presented because the timesheet was approved by the Program Administrator.

<u>Business Unit</u>	<u>Pay Period Ended</u>	<u>Employee No.</u>	<u>Gross Pay</u>
5649	11/12/10	100235	\$ 1,055
5649	12/18/10	100877	\$ 1,096
5649	03/12/11	171975	\$ 1,131
5649	09/24/11	518175	\$ 769
5649	08/02/11	100877	\$ 1,385

Cause: The cause of the above condition is the lack of adherence to applicable federal requirements.

Effect: The effect of the above conditions are potential questioned costs.

Recommendation: We recommend that the CNMI comply with applicable federal requirements.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-29, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Grant Numbers: CNMI-CIP-2008-4 and CNMI-CIP-2010-1
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree with these findings and the Office of Capital Improvement will comply with applicable federal requirements. A memorandum has been issued as a reminder to all employees that they must sign their time card or sign-in sheet at the end of every pay period.

Proposed Completion Date: Immediately.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30
 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: \$507,329

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.
- Written justification for sole source procurement shall be prepared by the official with expenditure authority and should include what specific efforts were made to obtain competition.
- Price or cost to the government shall be included as an evaluation factor in every solicitation of proposals, including professional services.
- Grantee and subgrantee contracts must include, among others, provisions for federal access to contractor's records.

Condition: Of fifty-four nonpayroll expenditures tested, aggregating \$3,301,310, of a population of \$5,062,888, the following were noted:

1. As noted above, CNMI procurement procedures allow for restricted competition for purchases of less than \$2,500. This procedure appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition in the procurement of federally funded property and services. Program expenditures in FY 2011 for purchases of less than \$2,500 totaled \$80,189.

For two expenditures (or 6%), price quotations were not obtained for the following which qualify under small purchase procedures:

<u>Grant Number</u>	<u>Obligating Document #</u>	<u>Purchase Order Amount</u>	<u>APV #</u>	<u>BU</u>	<u>General Ledger Date</u>	<u>Expenditure Tested</u>	<u>Questioned Costs</u>
CNMI- CIP-2010-5	528979 OP	\$2,500	979542	5668	02/24/11	\$ 2,500	\$ 2,500
CIP-CNMI-2007-1	535362 OP	1,199	229659	5617	08/09/11	\$ 1,199	<u>1,199</u>
							\$ <u>3,699</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30, 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: \$507,329

Condition, Continued:

2. For the following expenditure (or 2%), purchased through sole source procurement, effort to obtain quotes from qualified sources was not evident in procurement files:

<u>Grant Number</u>	<u>Obligating Document No.</u>	<u>Business Unit</u>	<u>Expenditure Tested</u>	<u>Questioned Costs</u>
CNMI-CIP-2009-2	532552 OP	5636	\$ 6,846	\$ 6,846

Of twenty-nine construction in progress (CIP) contracts tested, from nonpayroll expenditures tested aggregating \$3,154,258 of a population of \$5,062,888, the following were noted:

3. For the following contract (or 3%), relevant procurement documents (bid summary, bids received, bid evaluation, etc.) were not provided:

<u>Grant Number</u>	<u>Obligating Document No.</u>	<u>Business Unit</u>	<u>Expenditure Tested</u>	<u>Questioned Costs</u>
CNMI-CIP-2008-3	532 OS	5627	\$ (5,125)	\$ 53,325

4. Three professional service contracts (or 10%) did not include cost as an evaluating factor in evaluating proposals submitted as follows:

<u>Grant Number</u>	<u>Obligating Document No.</u>	<u>Contract Amount</u>	<u>Business Unit</u>	<u>Expenditure Tested</u>	<u>Questioned Costs</u>
CNMI-CIP-2006-1	538 OS	\$ 202,542	5225	\$ 40,508	\$ 121,524
CNMI-CIP-2008-2	557 OS	\$ 39,930	5672	\$ 5,719	35,367
CNMI-CIP-2008-3	544 OS	\$ 1,166,929	5627	\$ 280,267	280,267
					\$ <u>437,158</u>

5. For the following contract (or 3%), although a justification was noted regarding the additional work to be performed, we did not note the justification for sole source procurement:

<u>Grant Number</u>	<u>Obligating Document No.</u>	<u>Contract Amount</u>	<u>Business Unit</u>	<u>Expenditure Tested</u>	<u>Questioned Costs</u>
CNMI-CIP-2008-3	561 OS	\$ 10,000	5601	\$ 7,886	\$ 10,000

6. Nine contracts (or 31%) did not contain provisions for federal access to contractor records:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30, 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: \$507,329

Condition, Continued:

<u>Grant Number</u>	<u>Business Unit No.</u>	<u>Contract No.</u>
CNMI-CIP-2006-1	5222	553 OS
CNMI-CIP-2006-1	5222	545 OS
CNMI-CIP-2006-1	5225	538 OS
CNMI-CIP-2008-2	5672	557 OS
CNMI-CIP-2008-3	5601	561 OS
CNMI-CIP-2008-3	5627	544 OS
CNMI-CIP-2010-1	5649	513 OS
CNMI-CIP-2010-2	5652	516 OS
CNMI-CIP-2010-4	5658	552 OS

Cause: The cause of the above condition is the failure to comply with applicable procurement regulations and the absence of competitive procurement for items less than \$2,500. Further, procurement files were not properly maintained.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$507,329 related to conditions 2 through 6. For condition 1, we have reviewed correspondence with officials of the United States Department of Education (USDOE) stating that the USDOE General Counsel has taken the position that if entities follow local procurement procedures in making federal procurements that USDOE will not sustain the auditors' findings on small purchases. Based on these comments, we have not questioned costs related to small purchases; however, we have maintained the finding so that an official program determination letter can be obtained from the grantor.

Recommendation: We recommend that the CNMI comply with procurement regulations and 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, proper maintenance of files should be adhered to.

Prior Year Status: The lack of compliance with procurement regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Virginia C. Villagomez, CIP Administrator and James R. Stump, CIP Contracting Officer, Office of Capital Improvement, Office of the Governor and Kathryn Delafield, Legal Advisor, CNMI Water Task Force (WTF)

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30, 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: \$507,329

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

Condition 1 For the first item (obligating document no. 528979 OP), the purchase order was for the revision of electrical drawings and specifications for the design of the Agag Water System and Well Field Isolation project. The original design was completed in 2006. By the time funds were available for construction, CUC wanted to make additional changes to the design. Among these were changes to the electrical work. The purchase order in question was issued to the electrical subcontractor of the A&E firm who did the project design and was the only proper choice to make the changes to the electrical design to maintain design integrity and accountability. This explanation should have been stated on the purchase order. WTF will complete the section of the purchase order that provides for a justification of the expenditure in the future to explain any non-competitive purchase or any other unusual circumstances in a procurement.

For the second item (obligating document no. 535362 OP), this was a small purchase of three vertical, four-drawer, hanging file cabinets. There are no required procurement procedures for small purchases under \$2,500 in the CNMI Procurement Regulations. The federal government requires that in administering federal funds, recipient states and other government entities follow their own procurement regulations. The federal government itself requires no competition for purchases under \$3,000 (41USC 1902); however, WTF, as a matter of prudence and responsible stewardship, does seek to obtain the best prices available on any significant purchase. In this case, WTF contacted the only other office supply retailer on island by telephone, prior to purchasing the file cabinets and was informed that the office supply retailer had no file cabinets of this type in stock. While we believe that no corrective action is required, WTF will, in the future, document its efforts to obtain the best available price on island in the justification section of the purchase order form.

Condition 2 This purchase order was issued as a result of a cost-overrun on a contract (contract no. 384-0S). The work by the contractor was approved and accepted at a time WTF believed that sufficient funds remained in the contract accounts to cover the work. This was incorrect information. The purchase order was prepared to pay for the overrun and was accompanied by a full explanation of the circumstances. Both P&S and the Office of Insular Affairs approved this process for resolving WTF's outstanding obligation to the vendor. WTF will do its best to ensure grant account balances are independently maintained by our office as well as the Department of Finance and that these are periodically reconciled.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30, 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: \$507,329

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- Condition 3 Obligating document no. 532-OS is a contract for the Environmental Assessment for the Tinian Transfer Station funded under CNMI-CIP-2008-3 which was advertised in a Request for Proposal (reference no. RFP10-GOV-082). The Office of Capital Improvement Program maintains all required document for each project/proposal submitted and approved by the granting agency, Office of Insular Affairs. Our office has diligently compiled the documents from our project file.
- Condition 4 Obligating document nos. 544-05, Architectural & Engineering Design Services for Sanitary Landfill, 538-05, Environmental Assessment for Rota Landfill and 557-05, Architectural & Engineering Design Services for the Emergency Repairs of the Tinian Harbor were solicited through Request for Proposals. CIP complied with §70-30.3-210 for Competitive Sealed Proposals of the CNMI Procurement Regulations. No corrective action is necessary as our office has adhered to the CNMI Procurement regulation. In accordance with §70-30.3-305 for Architect-Engineer Services under the Subsection c for selection, after public announcement, discussions shall be conducted with at least three of the firms regarding the contract requirements and technical approach. Fee proposals may be solicited upon public announcement; however, this information shall not be considered in the selection of the most highly qualified firms. The CIP Office included cost as an evaluating factor in the solicitation of proposals, but no points were given as a criteria as a determining factor in the selection.
- Condition 5 This project involved an expenditure of \$10,000 in engineering services for the design of a road project (Rota Ecotourism Rd). The services of a construction and architect engineering firm were already previously retained through use of Procurement Regulation § 70-30.3-301 (“Procurement of Construction and Architect Engineering Services”) at a fixed rate of \$50 per hour. The CNMI used these procured services and fixed rates for a specialized project, “Design of Rota Ecotourism Rd” (additional work). The total cost of the additional work was not greater than \$10,000 so we used the procurement procedures applicable to small purchases, Procurement Regulation § 70-30.3-220. Under these regulations, competitive bidding is not required. In the future, the Office of Capital Improvement will appropriately document the competitive nature of bids.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30, 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: \$507,329

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Condition 6 We agree with the finding that the identified contracts did not contain provisions for federal access to contract records except for contract no. 513-0S, business unit no. 5649, which does indicate under Subsection 14, Assurances entitled "Code of Federal Regulations, Section 43, Part 12. The CIP Office, however, recognizes the inconsistencies in the different types of contracts lacking this provision and has determined to include the language pertaining to federal access to records.

Proposed Completion Date: Immediately and ongoing.

Auditor Response:

Condition 2 The original contract did not comply with applicable procurement regulations.

Condition 5 The engineering services for the additional work were procured through small purchases instead of a contract change order and justification for sole source procurement is required.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-31
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Area: 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 the subrecipient of 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 fifty-four nonpayroll expenditures tested aggregating \$3,301,310, of a population of \$5,062,888, \$147,052 relates to subrecipient expenditures. The following were noted:

1. A subrecipient agreement was not executed for pass through grant number CNMI-CIP-2008-2, business unit no. 5629.
2. For two contracts (nos. 509 OS and 519 OS) under business unit no. 5629 under grant number CNMI-CIP-2008-2, 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 Audits of the CNMI for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-31, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

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 has developed draft 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 the acceptance of the agreement by the counsel and partners, the Office of Capital Improvement will conduct monitoring pursuant to the established policies and procedures.

Proposed Completion Date: November 1, 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-32
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway Planning and Construction
Grant Numbers: CM-NH-0011 (001), CM-NH-0101 (001), CM-NH-0201 (001), CM-NH-0031 (013) and CM-NH-0031 (014)
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 six contracts tested, we noted that five contracts (or 83%) (nos. 495685 OC, 503660 OC, 504887 OC, 508828 OC and 509239 OC) did not contain provisions for federal access to contractor's records. No questioned cost is presented as contracts were selected in accordance with procurement regulations.

Cause: The cause of the above condition is the lack of procedures to include required contract clauses and failure to comply with applicable procurement regulations.

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

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

Prior Year Status: The lack of procedures to include required contract clauses and failure to comply with applicable procurement regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Martin C. Sablan, Secretary of Public Works

Corrective Action: We agree with this finding as the format of old contracts for construction and CM services did not contain a clause or provision for federal access to contractor's records. Going forward, all construction management contracts will contain federal provision for federal access to contractor's records.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-33
 Federal Agency: U.S. Department of Transportation
 CFDA Program: 20.205 Highway Planning and Construction
 Grant Numbers: CM-NH-0101 (001), CM-NH-0201 (001) and CM-NH-0031 (013)
 Area: Special Tests and Provisions
 Questioned Costs: \$1,072,192

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

Condition: Of twenty-eight construction expenditures tested totaling \$3,142,121 of a total population of \$3,749,314, the following were noted:

- Project extension approval was not provided for expenditures incurred after the agreed completion date as follows:

<u>Contract No.</u>	<u>Document No.</u>	<u>Project</u>	<u>Completion Date</u>	<u>Billing Period</u>	<u>Expenditure Amount</u>
495685-OC	975772	Construction of Route 101, Rota	04/13/09	March 2010	\$ 145,457
495685-OC	1005422	Construction of Route 101, Rota	04/13/09	March 2010	86,087
503660-OC	996085	Construction of Route 201, Tinian	06/22/10	July to December 2010	<u>84,644</u>
					\$ <u>316,188</u>

- Expenditures were incurred prior to the date of grantor's approval on the project extension.

<u>Contract No.</u>	<u>Document No.</u>	<u>Project</u>	<u>Approval Date</u>	<u>Billing Period</u>	<u>Expenditure Amount</u>
508828-OC	985943	Cross Island Road Improvement, Phase 1, Saipan	08/16/11	February 2011	\$ 143,385
508828-OC	996082	Cross Island Road Improvement, Phase 1, Saipan	08/16/11	March 2011	119,349
508828-OC	996083	Cross Island Road Improvement, Phase 1, Saipan	08/16/11	April 2011	258,682
508828-OC	1005420	Cross Island Road Improvement, Phase 1, Saipan	08/16/11	May 2011	125,129
508828-OC	1005421	Cross Island Road Improvement, Phase 1, Saipan	08/16/11	June 2011	<u>109,459</u>
					\$ <u>756,004</u>

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 \$1,072,192.

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

Prior Year Status: Failure to obtain project extension approval was reported as a finding in the Single Audit of the CNMI for fiscal year 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-33, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway Planning and Construction
Grant Numbers: CM-NH-0101 (001), CM-NH-0201 (001) and CM-NH-0031 (013)
Area: Special Tests and Provisions
Questioned Costs: \$1,072,192

Auditee Response and Corrective Action Plan:

Name of Contact Person: Martin C. Sablan, Secretary of Public Works

Corrective Action:

- Yes, there were no change orders processed for time extension to cover the additional charges incurred for services rendered beyond the contract completion. However, the grantor did approve all payment applications submitted for these additional costs as reflected in our vouchers for payments.
- Yes, grantor approval for the prepared change order was not obtained at the moment that the additional charges or services rendered incurred as time was of the essence. However, grantor approval was obtained immediately thereafter as reflected in the completed change orders.
- DPW will process all necessary change orders affecting contract terms and agreements prior to authorizing any payment applications.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-34
 Federal Agency: U.S. Department of Energy
 CFDA Program: 81.041 State Energy Program
 Area: Activities Allowed or Unallowed/Allowable Costs/Cost Principles
 Questioned Costs: \$13,005

Criteria: Per the indirect cost rate agreement for FY2011, costs charged may not exceed 5.48% for ARRA funds with direct utilities charged and 4.98% with non-ARRA funds with direct utilities charged.

Condition: Total indirect costs charged to the grant exceeded the agreement.

	<u>ARRA</u>	<u>Non-ARRA</u>	<u>Total</u>
Indirect cost rate	5.48%	4.98%	
Expected indirect cost	\$ 23,932	\$ 4,796	\$ 28,728
Indirect cost per general ledger	<u>34,588</u>	<u>7,145</u>	<u>41,733</u>
Excess of indirect cost charged over expected indirect cost	\$ <u>10,656</u>	\$ <u>2,349</u>	\$ <u>13,005</u>

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and questioned costs of \$13,005.

Recommendation: We 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 Persons: Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director of Finance & Accounting

Corrective Action: We agree with this finding and DOF will comply with all grant or contract terms and conditions. Management will review all submissions closely and ensure compliance.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-35
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
 Grant Numbers: S394A090054 and S397A090054
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$-0-

Criteria: Under the Education Stabilization Fund program, a State is required to maintain its level of support for elementary and secondary education (EASE) and for public institutions of higher education (IHEs), as follows:

- In each of the fiscal years 2010 and 2011, the State will maintain support for EASE at least at the level of such support for fiscal year 2006. The State may demonstrate that it is maintaining its level of State support for EASE on either an aggregate basis or a per-student basis.
- In each of the fiscal years 2010 and 2011, the State will maintain support for IHEs at least at the level of such support for fiscal year 2006. The State may demonstrate that it is maintaining its level of State support for IHEs on either an aggregate basis or a full-time-equivalent enrollment basis.

However, the Secretary of Education may waive or modify such requirements for fiscal years 2010 or 2011, if the Secretary determines the State will not provide a smaller percentage of the total revenues available to the State for elementary, secondary and postsecondary education than that provided in the preceding fiscal year (Section 14012(b) and (c) of ARRA).

Nevertheless, the level of effort required by a State for the following fiscal year shall not be reduced (Section 14012(e) of ARRA).

Condition: For fiscal years 2011 and 2010, based on the State's payments to the Public School System (PSS) for EASE and to the Northern Marianas College (NMC) for IHEs, deficiencies exist, as follows:

	<u>FY11 EASE</u>	<u>FY11 IHE</u>	<u>FY10 EASE</u>	<u>FY10 IHE</u>
State Support	\$ 31,140,519	\$ 4,464,464	\$ 31,240,946	\$ 4,401,783
2006 levels	<u>(35,026,573)</u>	<u>(5,594,377)</u>	<u>(35,026,573)</u>	<u>(5,594,377)</u>
Deficiency	\$ <u>(3,886,054)</u>	\$ <u>(1,129,913)</u>	\$ <u>(3,785,627)</u>	\$ <u>(1,192,594)</u>

The deficiencies appear to be the result of the CNMI's declining economy. We were informed that the CNMI is in the process of meeting the requirement to apply for waivers for fiscal years 2011 and 2010. Based on the current data in calculating effort to qualify for a waiver, deficiencies for EASE exist as below:

	<u>EASE</u>	<u>IHE</u>
FY2011 level	23%	3%
FY2010 level	<u>21%</u>	<u>3%</u>
% Excess	<u>2%</u>	<u>0%</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-35, 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: Matching, Level of Effort, Earmarking
Questioned Costs: \$-0-

Condition, Continued:

	<u>EASE</u>	<u>IHE</u>
FY2010 level	21%	3%
FY2009 level	<u>25%</u>	<u>3%</u>
% (Deficiency) Excess	<u>-4%</u>	<u>0%</u>

Cause: The cause of the above condition is the lack of established policies and procedures to determine compliance with the maintenance of effort requirements.

Effect: The effect of the above condition is noncompliance with maintenance of effort requirements. No questioned cost is presented as we were not able to assess the overall cumulative monetary value of any deficiencies for fiscal year 2011, and based on percentages of State support for this IHE, it appears that attempts at compliance exist despite the declining economy.

Recommendation: We recommend that the CNMI seek guidance from the grantor and comply with the maintenance of effort requirement.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sheryl Sizemore Camacho, Office of Grants Management

Corrective Action: Negotiations are ongoing to address the questions related to the required level of effort. A request for waiver has been submitted and the CNMI is awaiting results. We will continue to work with the grantor on this matter.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-36
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
 Grant Numbers: S394A090054 and S397A090054
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: Section 1512 of the ARRA Act, requires each recipient that received recovery funds from a Federal agency to submit a report not later than ten days after the end of each quarter. The report shall contains the following: (1) the total amount of recovery funds received from the Agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities; (3) a detailed list of all projects or activities for which recovery funds were expended or obligated; and (4) detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006, allowing aggregate reporting on awards below \$25,000 or to individuals, as prescribed by the Director of the Office Management and Budget.

Condition: Our tests of the ARRA 1512 report for the quarter ended June 30, 2011 submitted by the CNMI to the U.S. Department of Education noted variances as follows:

<u>Grant Award Number</u>	<u>Grant Amount</u>	<u>Budget Period</u>	<u>Accumulated Expenditures Per ARRA 1512</u>	<u>Accumulated Expenditures Per General Ledger</u>	<u>Variance</u>
S394A090054	\$ 36,346,681	10/15/09-09/30/10	\$ 24,970,702	\$ 25,878,954	\$ (908,252)
S397A090054	\$ 8,086,914	10/15/09-09/30/10	\$ 7,038,824	\$ 7,110,813	\$ (71,989)

Cause: The cause of the above condition is the lack of reconciliation between expenditures submitted in the Section 1512 report and expenditures recorded in the general ledger.

Effect: The effect of the above condition is noncompliance with the Section 1512 reporting requirements. No questioned cost is presented as expenditures reported in ARRA 1512 are less than expenditures recorded per the general ledger.

Recommendation: We recommend that the CNMI establish policies and procedures that require information reported to the grantor be based on actual financial records.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We agree with this finding and will develop policies and procedures to address this lack of reconciliation.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-37
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 \$ 19,275,960 in nonpayroll expenditures tested, the following were noted:

1. The subrecipient agreement did not specifically address applicable compliance requirements over period of availability (i.e., whether funds may be used to pay for pre-agreement costs). As a result, the subrecipient incurred expenditures of \$1,362,507 prior to execution of the subrecipient agreement. No questioned cost is presented as the expenditures were incurred within the period of availability of the grant awarded to CNMI.
2. Two subrecipients' drawdown requests to the CNMI for \$6,798,363 in expenditures incurred; however, the drawdown requests were not supported by invoices, contracts or equivalent documents supporting the expenditures. No questioned cost is presented since there are separate OMB A-133 reports with no questioned costs, and expenditures are in compliance with the subrecipient agreement between the CNMI and the subrecipient.

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

Effect: The effect of the above condition is the lack of compliance with subrecipient monitoring requirements.

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

Prior Year Status: Failure to enforce compliance with subrecipient monitoring requirements was reported as a finding in the Single Audit of the CNMI for fiscal year 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-37, 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-

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director of Finance & Accounting

Corrective Action: We agree with this finding and will develop policies and procedures to address the issue of noncompliance.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-38
Federal Agency: U.S. Department of Education
CFDA Program: 84.410 ARRA - Education Jobs Fund
Grant Numbers: S410A100054
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, providing 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: A subrecipient agreement was not executed for one subrecipient that incurred \$5,793,370 of 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. 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.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director of Finance & Accounting

Corrective Action: We agree with this finding and will develop policies and procedures to address the issue of noncompliance.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-39
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
 05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
 05-1105CQDEXT and 05-1105CQ1935
 Area: Activities Allowed or Unallowed/Allowable Costs/Cost Principles
 Questioned Costs: \$304,554

Criteria: Recorded expenditures should be authorized, supported by certified accounts payable vouchers, invoices and other relevant documents, 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 propriety of rates by service providers.

Condition: Of total program expenditures of \$14,616,928 for the year ended September 30, 2011, professional services of \$6,634,059 were tested. Our tests noted the following:

- a. Supporting billings and claims for five expenditures (or 8%) were not available for the following:

<u>General Ledger Date</u>	<u>Business Unit</u>	<u>Reference No.</u>	<u>Amount Tested</u>
11/09/10	H1778B	970938	\$ 15,306
02/23/11	H1778B	979176	221,576
02/23/11	H1778B	979176	4,842
09/14/11	H1778C	1001899	47,159
09/30/11	H1778C	1006013	<u>11,129</u>
Total			\$ <u>300,012</u>

- b. The service provider agreement and the letter of agreement were not provided for one off-island medical care (or 2%) (reference no. 972454) with a federal share of \$1,423. This amount was included in the questioned costs of item a.
- c. Of sixty-four items tested, thirty-three items (or 52%) with total claims of \$47,259 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, the lack of complete rate verification and review of billings accuracy resulted in incorrect rates paid for the following:

- For fifteen prescription and pharmacy claims (or 24%) totaling \$22,201, the rate charged and paid by Medicaid was higher than the Estimated Acquisition Cost (EAC) as agreed to the service provider agreement as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-39, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
 05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
 05-1105CQDEXT and 05-1105CQ1935
 Area: Activities Allowed or Unallowed/Allowable Costs/Cost Principles
 Questioned Costs: \$304,554

Condition, Continued:

<u>General Ledger Date</u>	<u>Business Unit</u>	<u>Reference No.</u>	<u>Amount Paid</u>	<u>EAC</u>	<u>Excess</u>
11/29/10	H1778B	972419	\$ 6,113	\$ 5,475	\$ 637
12/21/10	H1778B	974419	\$ 1,004	\$ 903	101
12/21/10	H17782	974417	\$ 230	\$ 211	20
12/21/10	H17782	974417	\$ 367	\$ 333	34
01/21/11	H1778B	976824	\$ 1,801	\$ 1,616	184
04/15/11	H17784	984047	\$ 826	\$ 744	82
04/15/11	H17784	984047	\$ 1,130	\$ 1,016	114
04/15/11	H17784	984047	\$ 2,247	\$ 2,016	231
04/15/11	H17784	984047	\$ 905	\$ 815	90
08/09/11	H1778C	995156	\$ 317	\$ 289	29
08/09/11	H1778C	995156	\$ 1,159	\$ 1,042	117
08/09/11	H1778C	995156	\$ 905	\$ 815	90
09/12/11	H1778C	1001440	\$ 2,479	\$ 2,223	256
09/12/11	H1778C	1001406	\$ 52	\$ 51	1
09/12/11	H1778C	1001439	\$ 496	\$ 449	47
Total					\$ 2,033
Federal share (50%)					\$ 1,017

- For two expenditures (or 3%) with total claims amounting to \$8,145, 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 to the program. Details are as follow:

<u>General Ledger Date</u>	<u>Business Unit</u>	<u>Reference No.</u>	<u>General Ledger Amount</u>	<u>Amount Tested</u>
01/07/11	H1778B	975881	\$ 32,686	\$ 582
08/05/11	H1778C	994971	\$ 58,813	6,468
Total				\$ 7,050
Federal share (50%)				\$ 3,525

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-39, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
05-1105CQDEXT and 05-1105CQ1935
Area: Activities Allowed or Unallowed/Allowable Costs/Cost Principles
Questioned Costs: \$304,554

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements, possible use of federal funds for unsupported, 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 \$304,554.

Recommendation: We recommend that the CNMI Medicaid Office and DOF obtain all necessary approvals/authorizations prior to incurrence/payment of expenditures and file supporting documents. 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 and failure to have all supporting documents on file was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 through 2010. 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 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit finding.

- a. Supporting billings and claims for five expenditures (or 8%) were not made available because the auditor did not request it.
- b. The auditor did not request it.
- c. Due to high volume of claims and limited resources, the staff randomly reviews the claims. I have instructed the staff to initial the claims once they have reviewed rates, eligibility date and third party information.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-39, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
05-1105CQDEXT and 05-1105CQ1935
Area: Activities Allowed or Unallowed/Allowable Costs/Cost Principles
Questioned Costs: \$304,554

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- 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 AWP data since at least 1970. According to the 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 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 AWP.
- We have a listing of the Medicare rates that staff use when verifying claims. If rates could not be verified in the established Medicare rates that we maintain, we will only pay 50% of charges.

Proposed Completion Date: N/A

Auditor Response:

- a. Files were requested from the Program Director by email dated May 7, 2012. The request was verbally followed-up during fieldwork and at later dates.
- b. Files were requested from the Program Director by email dated May 7, 2012. The request was verbally followed-up during fieldwork and at later dates.
- c. No written delegation of responsibility was attached.

The EAC rates computation used at condition c first bullet above is based on the signed agreement between the Medicaid Office and the service provider.

Rates for services tested are not included in the list of Medicare rates and we could not substantiate the allowability of the services tested at condition c second bullet above.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-40
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
 05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
 05-1105CQDEXT and 05-1105CQ1935
 Area: Eligibility
 Questioned Costs: \$2,756

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 forty-four eligibility files noted the following:

- Eligibility folders for two recipients (or 5%) were not available as follows:

<u>Case No/HRN No.</u>	<u>Service/Visit Date</u>	<u>Amount Paid</u>
14-23996	12/13/10	\$ 24
16-10684	08/17/10	136
	Total	\$ 160
	Federal share (50%)	\$ 80

- The Program paid for medical expenses of one ineligible recipient (or 2%) as follows:

<u>Case No/HRN No.</u>	<u>Service/Visit Date</u>	<u>Amount Paid</u>
15-11799	07/06/10	\$ 5,351
	Federal share (50%)	\$ 2,676

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 \$2,756 since projected costs exceed \$10,000.

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 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit finding.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-40, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
05-1105CQDEXT and 05-1105CQ1935
Area: Eligibility
Questioned Costs: \$2,756

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- The reason that the eligibility folders for two recipients were not made available because the auditor did not request it.
- The ineligible recipient was an SSI recipient and was terminated by SSA because he was not residing on his property because of his disability. However, for Medicaid, if you are not residing on your property and if it is an ancestral property and provided that it is not producing any income, we do not count it as a resource.

Proposed Completion Date: N/A

Auditor Response:

- Files were requested from the Program Director by email dated May 7, 2012. The request was verbally followed-up during fieldwork and at later dates.
- Recipient's application dated 06/11/10 was denied by the Medicaid Office on 08/06/10. However, the Program still paid for medical services dated 07/06/10 on 04/29/11.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-41
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
05-1105CQDEXT and 05-1105CQ1935
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, 2011 using the CMS 64 Certification, total federal expenditures reported amounted to \$14,436,263. The actual expenditures per the general ledger amounted to \$14,616,928 resulting in a variance of \$180,665.

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 drawdown, 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 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit finding.

At the end of every quarter, we request the detail expenditures report from DOF. Therefore, the information reported to the grantor is based on the CNMI's financial records. The auditor should look at that report instead for 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.

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 per the general ledger, which we obtained from DOF do not agree with the expenditures reported in the CMS 64 prepared by the Medicaid Office.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-42
Federal Agencies: U.S. Department of Agriculture
U.S. Department of Education
U.S. Department of Energy
U.S. Department of the Interior
U.S. Department of Health and Human Services
U.S. Department of Transportation
CFDA Programs: 10.551 Supplemental Nutrition Assistance Program
10.557 Special Supplemental Nutrition Program for Women, Infants, and
Children
15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
20.205 Highway Planning and Construction
81.041 State Energy Program
84.394/84.397 State Fiscal Stabilization Fund Cluster
84.410 ARRA - Education Jobs Fund
93.778 Medical Assistance Program
Area: Allowable Costs/Cost Principles
Questioned Costs: \$12,995

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. On November 10, 2010, the CNMI was ordered to remit the employer contribution rate of 30% effective October 1, 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-42, Continued
 Federal Agencies: U.S. Department of Agriculture
 U.S. Department of Education
 U.S. Department of Energy
 U.S. Department of the Interior
 U.S. Department of Health and Human Services
 U.S. Department of Transportation
 CFDA Programs: 10.551 Supplemental Nutrition Assistance Program
 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 20.205 Highway Planning and Construction
 81.041 State Energy Program
 84.394/84.397 State Fiscal Stabilization Fund Cluster
 84.410 ARRA - Education Jobs Fund
 93.778 Medical Assistance Program
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$12,995

Condition, Continued:

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 30% pursuant to CA No. 06-0367. 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 30%. During fiscal year 2011, the total employer retirement contributions charged to major programs amounted to \$1,823,851. The estimated difference for the U.S. Department of the Interior major program in employer retirement contributions should correct rates be charged is \$12,995 as follows:

<u>CFDA No.</u>	<u>Retirement Contribution Per General Ledger</u>	<u>Retirement Contribution Per Expectation</u>	<u>Questioned Costs</u>
15.875	\$ 65,744	\$ 52,749	\$ 12,995

The estimated difference in employer retirement contributions should correct rates be charged for all other major programs was less than \$10,000 and thus is not reported.

Additionally, the CNMI's Single Audit was not completed and submitted within nine months after September 30, 2011.

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 \$12,995. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-42, Continued
Federal Agencies: U.S. Department of Agriculture
U.S. Department of Education
U.S. Department of Energy
U.S. Department of the Interior
U.S. Department of Health and Human Services
U.S. Department of Transportation
CFDA Programs: 10.551 Supplemental Nutrition Assistance Program
10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
20.205 Highway Planning and Construction
81.041 State Energy Program
84.394/84.397 State Fiscal Stabilization Fund Cluster
84.410 ARRA - Education Jobs Fund
93.778 Medical Assistance Program
Area: Allowable Costs/Cost Principles
Questioned Costs: \$12,995

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 Audits of the CNMI for fiscal years 2009 and 2010. 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 through 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We disagree 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. PL16-32 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 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. 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 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.:	2011-42, Continued
Federal Agencies:	U.S. Department of Agriculture U.S. Department of Education U.S. Department of Energy U.S. Department of the Interior U.S. Department of Health and Human Services U.S. Department of Transportation
CFDA Programs:	10.551 Supplemental Nutrition Assistance Program 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects 20.205 Highway Planning and Construction 81.041 State Energy Program 84.394/84.397 State Fiscal Stabilization Fund Cluster 84.410 ARRA - Education Jobs Fund 93.778 Medical Assistance Program
Area:	Allowable Costs/Cost Principles
Questioned Costs:	\$12,995

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-43
Federal Agencies: U.S. Department of Agriculture
U.S. Department of the Interior
U.S. Department of Energy
U.S. Department of Transportation
CFDA Programs: 10.551 Supplemental Nutrition Assistance Program
10.557 Special Supplemental Nutrition Program for Women, Infants, and
Children
15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
20.205 Highway Planning and Construction
81.041 State Energy Program
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: Tests of equipment and real property noted the following:

1. There is no documentation that a complete physical inventory of equipment and property and reconciliation with P&S records was performed over the last two fiscal years.
2. Property records maintained by the programs have missing information or did not include some of the required information, such as serial or identification number, source of the property, who holds title, percentage of federal participation in the cost of the property, and use and condition of the property.

Cause: The cause of the above condition is 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 noncompliance with the applicable equipment management requirements. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-43, Continued
 Federal Agencies: U.S. Department of Agriculture
 U.S. Department of the Interior
 U.S. Department of Energy
 U.S. Department of Transportation
 CFDA Programs: 10.551 Supplemental Nutrition Assistance Program
 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 20.205 Highway Planning and Construction
 81.041 State Energy Program
 Area: Equipment and Real Property Management
 Questioned Costs: \$-0-

Effect, Continued:

<u>CFDA No.</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Grand Total</u>
10.551	\$ 655	\$ 15,696	\$ 47,525	\$ 63,876
10.557	\$ 46,888	\$ 53,417	\$ 20,252	\$ 120,557
15.875	\$ 85,067	\$ 235,167	\$ 334,925	\$ 655,159
81.041	\$ 110,827	\$ 23,673	\$ -	\$ 134,500

No questioned cost is presented for CFDA No. 20.205 due to our inability to assess the cumulative dollar amount of property and equipment acquired with program grant funds.

Recommendation: We recommend that CNMI maintain complete records of property and equipment acquired with grant funds, perform physical inventories, and comply with applicable 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 failure to reconcile property records was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 through 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with this finding and will develop a schedule to update and maintain complete records of all property and equipment acquired with grant funds, as well as comply with all applicable policies and procedures related to this matter.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-44
Federal Agencies: U.S. Department of Agriculture
U.S. Department of Education
U.S. Department of Energy
U.S. Department of the Interior
U.S. Department of Health and Human Services
U.S. Department of Transportation
CFDA Programs: 10.551 Supplemental Nutrition Assistance Program
10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
20.205 Highway Planning and Construction
81.041 State Energy Program
84.394/84.397 State Fiscal Stabilization Fund Cluster
84.410 ARRA - Education Jobs Fund
93.778 Medical Assistance Program
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 requirement shall not be artificially divided so as to constitute a small purchase.
- Bidding is not required for procurements under \$2,500.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the Procurement and Supply Director for approval.
- Purchase orders may be utilized for small purchases, subparagraphs (2) and (3).

It appears that the absence of competitive procurement for items less than \$2,500 may not conform to applicable procurement requirements. Additionally, it does not appear that funding agencies approved such a threshold. We have reviewed correspondence with officials of the United States Department of Education (USDOE) stating that the USDOE General Counsel has taken the position that if entities follow local procurement procedures in making federal procurements that USDOE will not sustain the auditors' findings on small purchases. Based on these comments, we have not questioned costs related to small purchases; however, we have maintained the finding so that an official program determination letter can be obtained from the grantor.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-44, Continued
Federal Agencies: U.S. Department of Agriculture
U.S. Department of Education
U.S. Department of Energy
U.S. Department of the Interior
U.S. Department of Health and Human Services
U.S. Department of Transportation
CFDA Programs: 10.551 Supplemental Nutrition Assistance Program
10.557 Special Supplemental Nutrition Program for Women, Infants, and
Children
15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
20.205 Highway Planning and Construction
81.041 State Energy Program
84.394/84.397 State Fiscal Stabilization Fund Cluster
93.778 Medical Assistance Program
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Cause: The cause of the above condition is the lack of awareness and incorporation of applicable 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.

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

Prior Year Status: The lack of awareness and incorporation of applicable regulations within the CNMI's Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with this finding for the same reasons cited in previous audits.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-45
 Federal Agencies: U.S. Department of Commerce
 U.S. Department of Education
 U.S. Department of Homeland Security
 U.S. Environmental Protection Agency
 CFDA Programs: 11.419 Coastal Zone Management Administration Awards
 66.600 Environmental Protection Consolidated Grants for the Insular Areas
 - Program Support
 84.126 Rehabilitation Services_Vocational Rehabilitation Grants to States
 84.390 ARRA - Rehabilitation Services-Vocational Rehabilitation Grants
 to States
 97.073 State Homeland Security Program
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$106,791

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 employer contribution rate increased to 30% effective October 1, 2010.

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 30% pursuant to CA No. 06-0367. 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 30%. During fiscal year 2011, the total employer retirement contributions charged to federal awards amounted to \$540,258. The estimated difference in employer retirement contributions should correct rates be charged to federal awards is \$106,791 as follows:

<u>CFDA No.</u>	<u>Retirement Contribution Per General Ledger</u>	<u>Retirement Contribution Per Expectation</u>	<u>Questioned Costs</u>
11.419	\$ 107,264	\$ 86,061	\$ 21,203
66.600	246,226	197,556	48,670
84.126/84.390	107,498	86,249	21,249
97.073	79,270	63,601	15,669
	<u>\$ 540,258</u>	<u>\$ 433,467</u>	<u>\$ 106,791</u>

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 \$106,791.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-45, Continued
Federal Agencies: U.S. Department of Commerce
U.S. Department of Education
U.S. Department of Homeland Security
U.S. Environmental Protection Agency
CFDA Programs: 11.419 Coastal Zone Management Administration Awards
66.600 Environmental Protection Consolidated Grants for the Insular Areas
- Program Support
84.126 Rehabilitation Services_Vocational Rehabilitation Grants to States
84.390 ARRA - Rehabilitation Services-Vocational Rehabilitation Grants
to States
97.073 State Homeland Security Program
Area: Allowable Costs/Cost Principles
Questioned Costs: \$106,791

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 through 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We disagree with this finding for the same reasons cited in previous audits.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-46
 Federal Agencies: U.S. Department of Commerce
 U.S. Department of Health and Human Services
 CFDA Programs: 11.437 Pacific Fisheries Data Program
 93.217 Family Planning_Services
 93.889 National Bioterrorism Hospital Preparedness Program
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$246,731

Criteria: Effective controls require that disbursements be supported with invoices prior to recording.

Condition: Our tests of nonpayroll expenditures noted the following:

- a. Of four capital asset additions tested, one capital asset addition was paid with no supporting invoice attached as follows:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
11.437	COJEA2	64540	10/13/10	PV 968390	\$ 246,731

- b. Of sixty-nine nonpayroll Federal Grants Fund items tested aggregating \$3,002,446, the supporting accounts payable voucher, invoice, journal vouchers, and relevant documents for the following were not available:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Voucher No.</u>	<u>General Ledger Date</u>	<u>Amount</u>
Unknown	2000	223252	09/30/11	\$ 667,906
Unknown	2002	223252	09/30/11	\$ (32,453)

No questioned costs are reported as specific federal awards could not be determined.

- c. Of ten Capital Projects Fund expenditures tested aggregating \$1,126,108, journal voucher no. 222068, amounting to \$275,671, was not provided. We determined that this journal voucher related to the reversal of 2010 proposed audit adjustments accruing liabilities and thus no questioned costs are reported.

Cause: The cause of the above condition is failure to follow controls over the disbursement process.

Effect: The effect of the above condition is noncompliance with effective controls and questioned costs of \$246,731.

Recommendation: We recommend that the CNMI file and maintain all relevant documentation supporting validity.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-46, Continued
Federal Agencies: U.S. Department of Commerce
U.S. Department of Health and Human Services
CFDA Programs: 11.437 Pacific Fisheries Data Program
93.217 Family Planning_Services
93.889 National Bioterrorism Hospital Preparedness Program
Area: Allowable Costs/Cost Principles
Questioned Costs: \$246,731

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: Documents related to this cost will be located to address this cost. In addition, policies and procedures will be developed to ensure that disbursements are supported with proper and relevant documentation. Further, supporting documents were provided for the transactions related to BU #s H0217G and H9889A.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-47
Federal Agencies: Institute of Museum and Library Services
U.S. Department of Health and Human Services
U.S. Department of Homeland Security
U.S. Department of the Interior
CFDA Programs: 15.875 Economic, Social, and Political Development of the Territories
45.310 Grants to States
93.283 Centers for Disease Control and Prevention_Investigations and
Technical Assistance
97.073 State Homeland Security Program
97.074 Law Enforcement Terrorism Prevention Program (LETPP)
Area: Procurement and Suspension and Debarment
Questioned Costs: \$1,920,701

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.
- A written justification for sole source procurement shall be prepared by the official with expenditure authority. The written sole source justification shall contain the following: a) the specific unique capabilities of the contractor selected; b) the specific reasons why such unique capabilities are required for the particular procurement; c) what specific efforts were made to obtain competition and d) what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. Moreover, generalized statements are not adequate and documents to support the statements justifying the sole source procurement are mandatory.
- Change orders (CO) on construction and A&E contracts, which exceed 25 percent of the cumulative contract price, shall automatically be procured through competitive procedures pursuant to Section 3-101, except when the procurement of the additional work is authorized without using full and open competition under Section 3-104.

Condition: Tests of nonmajor program nonpayroll expenditures and nonmajor capital asset additions noted the following:

1. Of sixty-nine nonmajor program nonpayroll expenditures tested aggregating \$3,002,446, the following were noted:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-47, Continued
 Federal Agencies: Institute of Museum and Library Services
 U.S. Department of Health and Human Services
 U.S. Department of Homeland Security
 U.S. Department of the Interior
 CFDA Programs: 15.875 Economic, Social, and Political Development of the Territories
 45.310 Grants to States
 93.283 Centers for Disease Control and Prevention_ Investigations and
 Technical Assistance
 97.073 State Homeland Security Program
 97.074 Law Enforcement Terrorism Prevention Program (LETPP)
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$1,920,701

Condition, Continued:

- a. The relevant procurement documents supporting competitive procurement for the following contract procured through a request for proposal was not provided:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>
15.875	198755	516798 OC	976810	\$ 254,459

- b. For one contract, which was procured through sole source, although a written justification memo was prepared, efforts were not made to contact or consider other available vendors:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>
Unknown	2022A	10/14/10	968468	\$ 78,418

- c. We noted change orders related to one contract (contract no. 504459 OC, CO no. 7 for \$796,865) in which the amount of the change order exceeded 25 percent of the cumulative contract price. However, the change orders were not procured through competitive procedures. The original contract was for the procurement of a CNMI ARRA State Lead which was procured through sole source.

- d. One contract was procured through sole source but informal quotations were able to obtain. Further, competitive bids should have been obtained as the total amount of the contract exceeded \$10,000:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>
45.310	F9310C	01/25/11	977099	\$ 8,327

2. Of four capital asset additions tested, two capital asset additions procured under the sole-source method did not show evidence of effort to obtain proposals/quotations from other vendors.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-47, Continued
 Federal Agencies: Institute of Museum and Library Services
 U.S. Department of Health and Human Services
 U.S. Department of Homeland Security
 U.S. Department of the Interior
 CFDA Programs: 15.875 Economic, Social, and Political Development of the Territories
 45.310 Grants to States
 93.283 Centers for Disease Control and Prevention_ Investigations and
 Technical Assistance
 97.073 State Homeland Security Program
 97.074 Law Enforcement Terrorism Prevention Program (LETPP)
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$1,920,701

Condition, Continued:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
97.074	J6074E	64550	10/28/10	PV 969784	\$ 282,567
97.073	J6073M	64550	01/20/11	PV 976640	<u>500,065</u>
					\$ <u>782,632</u>

Cause: The cause of the above condition is the lack of compliance with applicable procurement regulations, the absence of competitive procurement for items above \$2,500, and the lack of obtaining grantor approval for equipment purchases above \$5,000.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$1,920,701.

Recommendation: We recommend that the CNMI's Procurement and Supply Division verify that applicable procurement regulations are adhered to and that all relevant procurement documents are maintained and filed accordingly.

Prior Year Status: The lack of compliance with applicable procurement regulations, the absence of competitive procurement for items above \$2,500, and the lack of obtaining grantor approval for equipment purchases above \$5,000 was reported as a finding in the Single Audit of the CNMI for fiscal year through 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action: Policies and procedures will be reviewed and followed to ensure that all relevant documents are submitted with requests and maintained in files to document the procurement of all government purchases.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2011

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, 2011:

Questioned costs as previously reported:

Fiscal year 2010	\$ 5,483,038
Fiscal year 2009	4,817,031
Fiscal years 2008 and prior	<u>14,414,795</u>
	24,714,864

Questioned costs of fiscal year 2011 Single Audit 4,223,661

Unresolved questioned costs at September 30, 2011 \$ 28,938,525

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 18 through 108).



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Eloy S. Inos
Governor

Jude U. Hofschneider
Lieutenant Governor

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, 2010. Findings related to questioned costs of \$19,231,826 from fiscal year 2009 and prior Single Audits have not been resolved.

FINANCIAL STATEMENT FINDINGS

- Finding No. 2010-1 - Not corrected. See corrective action plan to Finding No. 2011-01.
- Finding No. 2010-2 - Corrective action was taken.
- Finding No. 2010-3 - Not corrected. See corrective action plan to Finding No. 2011-02.
- Finding No. 2010-4 - Not corrected. See corrective action plan to Finding No. 2011-03.
- Finding No. 2010-5 - Not corrected. See corrective action plan to Finding No. 2011-06.
- Finding No. 2010-6 - Not corrected. See corrective action plan to Finding No. 2011-07.
- Finding No. 2010-7 - Not corrected. See corrective action plan to Finding No. 2011-08.
- Finding No. 2010-8 - Not corrected. See corrective action plan to Finding No. 2011-09.
- Finding No. 2010-9 - Not corrected. See corrective action plan to Finding No. 2011-11.
- Finding No. 2010-10 - Not corrected. See corrective action plan to Finding No. 2011-13.
- Finding No. 2010-11 - Not corrected. See corrective action plan to Finding No. 2011-14.
- Finding No. 2010-12 - Not corrected. See corrective action plan to Finding No. 2011-15.
- Finding No. 2010-13 - Not corrected. See corrective action plan to Finding No. 2011-16.
- Finding No. 2010-14 - Not corrected. See corrective action plan to Finding No. 2011-17.
- Finding No. 2010-15 - Not corrected. See corrective action plan to Finding No. 2011-18.
- Finding No. 2010-16 - Not corrected. See corrective action plan to Finding No. 2011-21.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- Finding No. 2010-17 - Corrective action was taken.
- Finding No. 2010-18 - Not corrected. See corrective action plan to Finding No. 2011-43.
- Finding No. 2010-19 - Not corrected. See corrective action plan to Finding No. 2011-28.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

- Finding No. 2010-20 - Not corrected. See corrective action plan to Finding No. 2011-43.
- Finding No. 2010-21 - Corrective action was taken.
- Finding No. 2010-22 - Corrective action was taken.
- Finding No. 2010-23 - Corrective action was taken.
- Finding No. 2010-24 - Corrective action was taken.
- Finding No. 2010-25 - Corrective action was taken.
- Finding No. 2010-26 - Not corrected. See corrective action plan to Finding No. 2011-43.
- Finding No. 2010-27 - Corrective action was taken.
- Finding No. 2010-28 - Corrective action was taken.
- Finding No. 2010-29 - Not corrected. See corrective action plan to Finding No. 2011-30.
- Finding No. 2010-30 - Not corrected. See corrective action plan to Finding No. 2011-30.
- Finding No. 2010-31 - Corrective action was taken.
- Finding No. 2010-32 - Not corrected. See corrective action plan to Finding No. 2011-31.
- Finding No. 2010-33 - Corrective action was taken.
- Finding No. 2010-34 - Not corrected. See corrective action plan to Finding No. 2011-43.
- Finding No. 2010-35 - Not corrected. See corrective action plan to Finding No. 2011-32.
- Finding No. 2010-36 - Not corrected. See corrective action plan to Finding No. 2011-33.
- Finding No. 2010-37 - Corrective action was taken.
- Finding No. 2010-38 - Corrective action was taken.
- Finding No. 2010-39 - Not corrected. See corrective action plan to Finding No. 2011-43.
- Finding No. 2010-40 - Not corrected. See corrective action plan to Finding No. 2011-44.
- Finding No. 2010-41 - Corrective action was taken.
- Finding No. 2010-42 - Corrective action was taken.
- Finding No. 2010-43 - Corrective action was taken.
- Finding No. 2010-44 - Not corrected. See corrective action plan to Finding No. 2011-37.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

- Finding No. 2010-45 - Not corrected. See corrective action plan to Finding No. 2011-39.
- Finding No. 2010-46 - Corrective action was taken.
- Finding No. 2010-47 - Not corrected. See corrective action plan to Finding No. 2011-40.
- Finding No. 2010-48 - Not corrected. See corrective action plan to Finding No. 2011-41.
- Finding No. 2010-49 - Not corrected. See corrective action plan to Finding No. 2011-42.
- Finding No. 2010-50 - Not corrected. See corrective action plan to Finding No. 2011-44.
- Finding No. 2010-51 - Not corrected. See corrective action plan to Finding No. 2011-45.
- Finding No. 2010-52 - Corrective action was taken.
- Finding No. 2010-53 - Corrective action was taken.