

Annual Report

1997

Office of the Public Auditor Commonwealth of the Northern Mariana Islands

Leo L. LaMotte
Public Auditor



Public Auditor's Message



Procurement continues to be the most important priority for our audit and investigation efforts. Last year, we evaluated about 150 procurements during audits and about 25 during investigations. The audits included an analysis of about 100 professional services contracts awarded from 1992 to mid-1996 and individual contracts such as the Marianas High School Gym project. We are now auditing professional service contracts from mid-1996 to January 1998 and our ongoing investigations also include numerous contracts.

CNMI procurement practices include far too much use of the sole source method of procurement without adequate information about what the work is worth, how much consultants should be paid, and whether alternative sources have been seriously considered, advance payments have been made, and payments made without anything being delivered. Construction projects have been left incomplete, unnecessary cost overruns have been tolerated and extravagant sums paid through change orders.

It is conservative to say that millions and millions of dollars have been unnecessarily spent when the money was not available, sometimes with little to show for it.

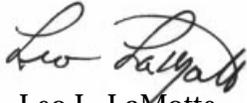
Then, there is the long overdue revision of procurement policies and procedures. The regulations need to be revised so that public spending is more carefully controlled; as one example, advance payments should be limited to unusual and specific circumstances and should not be made at the will of expenditure authorities. The current regulations are adequate in many respects, but they are all too often either ignored or flouted.

We believe the CNMI should receive the best it can get for its money.

CNMI officials need to follow the procurement regulations. Otherwise, situations like the procurement of the Marianas High School air conditioners develop, where we received bid protest appeals and officials still do not follow regulations and complain that their mistake is minor. We do not consider the disregard of certain basic requirements in the regulations as minor. A head anchor for one TV station (at the time there were two) put it, the answer is "do it right the first time."

We received more bid protest appeals in 1997 than ever before, probably for these same reasons. The regulations are not being followed and are being ignored. It seems that more agencies are claiming the authority to manage their own procurement without being certified by the Department of Finance and without having experienced staff to perform the job. The agencies apparently are unaware that they are required to adopt regulations identical to the CNMI procurement regulations, and do not know that even if certified, certain types of procurement such as sole source must be made through the Department of Finance's Division of Procurement and Supply.

We will continue to encourage government managers to become familiar with procurement regulations and abide by them. There is too much at stake. The CNMI needs its resources to be used in the most efficient, economical and effective way possible.

A handwritten signature in cursive script, reading "Leo LaMotte".

Leo L. LaMotte
Public Auditor

April 1998

Contents

Background 1

Duties and Responsibilities, Budget,
Personnel, Organizational Chart



Summary of Activities 3



Highlights of Activities 5

Audit Activities, Government Ethics Code,
Decisions Rendered on Procurement Appeals,
Investigative Activities, Referrals to the Attorney
General, Internet Web Site, Independent CPA
Firm Audits, Other Activities



Appendices 13

- A - OPA Audit Reports Issued, 13
- B - Independent CPA Firm Audits, 15
- C - Referrals to Attorney General's Office, 17
- D - Decisions on Bid Protest Appeals in 1997, 20
- E - Peer Review Report on OPA, 23



Background

Article III, Section 12 of the Commonwealth of the Northern Mariana Islands (CNMI) Constitution and the Commonwealth Auditing Act (1 CMC §2301, §7812 et. seq. of the Commonwealth Code) established the Office of the Public Auditor (OPA) as an independent agency of the Commonwealth Government to audit the receipt, possession, and disbursement of public funds and to perform such other duties as required by law.

Duties and Responsibilities

The primary duties and responsibilities of the Public Auditor are as follows:

- # Audits of Commonwealth agencies, activities, contracts, or grants.
- # Issuance of opinions as to whether or not certain practices are in accordance with generally accepted accounting principles.
- # Centralization of all auditing services required by Commonwealth agencies.

The Public Auditor also has special duties to prevent and detect fraud, waste, and abuse of public funds. In addition, other laws and regulations established additional duties and responsibilities of the Public Auditor as follows:

- # Enforcement of the Government Ethics Code Act of 1992.
- # Monitoring of the expenditure, obligation, encumbrance, or other commitment of funds appropriated or allocated under the Planning and Budgeting Act of 1983.
- # Adjudication of all appeals of decisions made by procurement officials in connection with any protest in the solicitation

and award of a contract.

- # Quarterly audits of the CNMI Lottery Commission, its distributing agents, and its licenses.

Budget

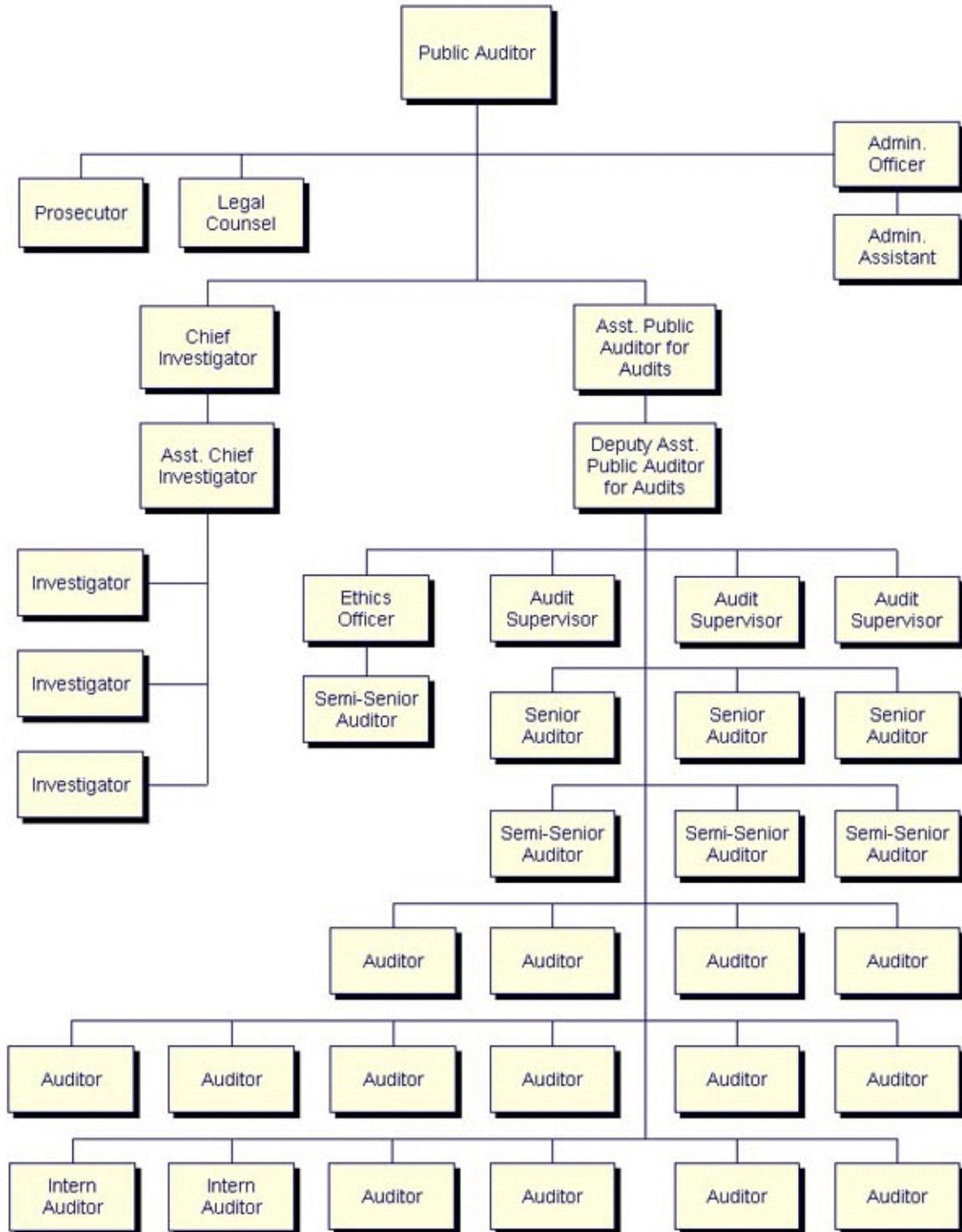
Public Law 9-68 required the withholding of one percent from all locally generated funds appropriated by Commonwealth law for each government agency's operations and activities as well as for all capital improvement projects. Also, autonomous agencies not funded primarily by legislative appropriations are required to pay the Public Auditor an amount not less than the greater of one percent of its *total operations budget* from sources other than legislative appropriations or pursuant to any other formula upon which the Public Auditor and the agency may agree.

The law requires the Secretary of Finance to deposit the amounts withheld and amounts paid by autonomous agencies in a special account separate from the General Fund.

Personnel

In 1997, OPA was authorized 39 full-time equivalent employees. The chart on the next page shows OPA's current organizational structure. □

OFFICE OF THE PUBLIC AUDITOR ORGANIZATIONAL CHART



Summary of Activities

In 1997, OPA conducted 64 financial, operational, and performance audits of CNMI Government departments and agencies and supervised CPA firm audits of autonomous agencies. As mandated by statute, OPA implemented the Government Ethics Code Act of 1992. Also, OPA conducted investigations on allegations of fraud, waste and abuse, ethics violations, and matters arising from audits which required further investigation. In addition, OPA issued decisions on appeals of the awarding of seven contracts.

Audit Activities

In 1997, a total of 18 final reports were released. 15 of the 18 final reports pertain to operations of 8 departments and agencies, while 3 final reports pertain to CNMI Government-wide operations. Appendix A lists the final audit reports issued by OPA. Also, 5 draft reports were released for agency comments, while either a draft report was being prepared or field work was ongoing for 41 other audit engagements. Of the 64 total audits, 30 were requests, 13 were self-initiated, 13 were investigations-initiated, and 8 were mandated by law.

During 1997, OPA supervised and monitored the procurement and conduct of audit services for the single audits and financial and compliance audits of the following agencies:

- # CNMI Government
- # Commonwealth Ports Authority
- # Marianas Visitors Bureau
- # Northern Mariana Islands Retirement Fund
- # Public School System
- # Commonwealth Government Employees Credit Union
- # Commonwealth Utilities Corporation

- # Commonwealth Development Authority
- # Marianas Public Land Trust
- # Northern Marianas College
- # Northern Mariana Islands Health & Life Insurance Trust Fund

Appendix B lists all audit reports issued by independent CPA firms and ongoing audits at year end.

Ethics Act Implementation

In December 1996, OPA established the Ethics Unit within the Audit Division. The Unit was tasked with the responsibility of implementing and enforcing the Government Ethics Code Act of 1992.

In 1997, the Ethics Unit closely monitored the filing of statements of financial interest by CNMI Government officials and employees. For the first time, *all* officials filed their statements in a more timely manner than in the past, thus, reducing fines assessed for late or non-filing.

Additionally, the Ethics Unit began an educational campaign to make the public aware of and familiar with the CNMI Government Ethics Code Act. Also, the Unit con-

ducted inquiries, investigations, and audits on ethics violations.

Appeals of Bid Protest Decisions

In 1997, OPA reviewed ten appeals, seven received in 1997 and three from 1996. Of the ten cases, decisions were issued in seven cases of which three were granted and four were denied. Three cases were pending review as of year end.

Investigative Activities

OPA investigated cases involving violations of procurement regulations, fraud, misuse of government funds and property, embezzlement, theft, and violations of the Ethics Act.

Referrals to the AG

As a result of its audit and investigative work, OPA referred ten cases to the Attorney General involving violations of federal or Commonwealth criminal law and matters requiring civil action.

Other Activities

The Public Auditor submitted written and oral testimony on Legislative hearings involving the CNMI budget and investigations on the Tinian Casino Gaming Control Commission.

A full compliance report was issued to OPA by the Public Auditor of the Federated States of Micronesia in a "peer review" of OPA's operations for fiscal years 1996 and 1997.

OPA's world wide web site provided the public with up-to-date information on OPA reports issued, government ethics, and other activities. In 1997, decisions issued by OPA on appeals of decisions by the Director of Procurement and Supply of contract awards

were also made available. The site can be accessed on the Internet at <http://opacnmi.com>.

Personnel

In fiscal year 1997, OPA was authorized 39 full-time equivalent (FTE) employees, an increase of eight FTEs from fiscal year 1996. The additional FTEs were distributed to the Investigation Division (three), Audit Division (four including two for the Ethics Unit), and for prosecution (one Prosecutor).

Total staff time available for the year was 55,033 after deduction for holidays and leave. These hours were applied to efforts as shown in Figure 1.

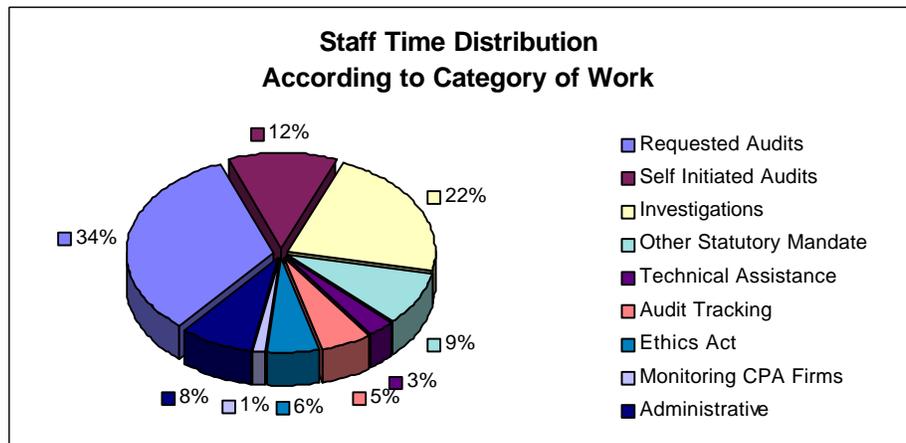


Figure 1

Financial Information

In fiscal year 1997, deposits to OPA's special account totaled \$2,479,398. Public Law 10-41, however, authorized a budget of \$1,958,700 for OPA. The difference of \$520,698 was transferred to the salary adjustment account in accordance with P.L. 10-41.

OPA's total expenditures for the year was \$1,604,856. Of this amount, \$1,079,544 was for personnel costs and \$525,312 was for all other costs. □

Highlights of Activities

Activities of the Office of the Public Auditor were primarily guided by its mandate. Thus, OPA's activities are categorized as (1) audit activities, (2) government ethics act implementation, (3) investigation activities, (4) adjudication of procurement appeals, and (5) other activities. These activities, however, are guided by OPA's overall objectives of prevention and detection of fraud, waste and abuse, and improvement in the economy, efficiency and effectiveness of government operations.

Audit Activities

Theft of Collections

Our investigation of missing collections at the Office of Aging's ManAmko fund-raising project resulted in the admittance of theft of \$4,000 in cash collections by the Program Activity Coordinator for the project.

In another case, one of the Commonwealth Health Center (CHC) evening cashiers admitted to the theft of \$3,608 from a daily collection at the CHC cashier station.

Missing Equipment

An investigation into information received about missing equipment at the Office of Aging showed that 27 pieces of equipment costing a total of \$10,866 were missing and could not be accounted for. The investigation further showed that the Director of Aging improperly left 10 pieces of equipment belonging to the Office and costing \$3,184 at Double M Ltd. and gave them permission to use it.

The matter was referred to the Attorney General's (AG) Office. The AG's office filed a case with the CNMI Superior Court against the Director of Aging for misconduct in public office. The case, however, was dismissed by the Court for insufficient evidence because of the untimely death of the primary witness, the owner of Double M Ltd.



Water heater, air conditioner, desk and chairs owned by the CNMI government were found being used by a vendor in its office and employees' quarters.

Misuse of Funds and Resources

An audit of the Developmental Disabilities Council (DDC) showed that the Executive Director misused government telephones and travel funds amounting to almost \$5,000 for her personal gain. The audit disclosed that the Director did not pay for personal long distance calls charged to DDC's account and did not return cash advances obtained for trips that were canceled. The travel advances remained outstanding for almost a year and were only recovered through a deduction from a retroactive salary increase that she received.

However, the same retroactive salary increase, which amounted to \$3,600, was previously rejected by DDC's federal grantor agency and was improperly paid from local funds in violation of CNMI laws and regulations.

Professional Services Contracts

In 1997, OPA conducted an audit of professional services contracts entered into by the Executive Branch of the CNMI government during fiscal years 1992 through July 20, 1995 totaling \$12.88 million. The audit showed that (1) the CNMI government made full or substantial payments totaling \$253,000 to several contractors who failed to perform the scope of work and submit contract deliverables required under the professional services contracts, (2) sole source procurement of professional services was regularly used to waive competitive proposal requirements without adequate justification and more than \$6.19 million of contracts obtained sole source did not qualify for sole source procurement, (3) professional services contracts totaling \$4.08 million contained terms and conditions which were unclear and unfavorable to the CNMI resulting in the lack of assurance that the contracts are necessary and reasonably priced. In addition, questionable payments totaling \$282,000 were made because of

inadequate review by the Department of Finance (DOF).

Construction Contracts

Our audit of the Department of Labor and Immigration Detention Center showed that the renovation of the detention center was undertaken without competitive bidding and without the required contract documentation and approvals. Moreover, funds appropriated from the Office of the Special Assistant for Administration were improperly used to pay for the renovation project which had been zero-funded by the Legislature. CNMI law prohibits reprogramming to zero-funded accounts.

Also, OPA conducted an audit of the Marianas High School Gymnasium Contract to determine whether the contractor performed work in accordance with the terms and conditions of the contract, and the Public School System complied with applicable laws and regulations in the procurement and administration of the contract. The audit was requested due to the long delay in the project which started in August 1993 and was expected to be completed by August 1994. A draft report was released and waiting for agency comments as of year end. (Note: The final report was released in January 1998.)



Construction of the Marianas High School Gym has been ongoing with completion nowhere in sight. The one-year project was expected to be completed in August 1994.

Violation of Ethical Standards in Public Contracting

An audit and investigation showed that the Special Assistant for Drug and Substance Abuse had a conflict of interest when he personally participated and influenced the procurement of the contract with MBG Management Services, which he knew would substantially compensate his sister as a subcontractor, and awarded the contract under the sole source procurement method without exploring other possible sources to assure a fair and reasonable price for the project. In addition, MBG was overpaid because it was allowed to bill the CNMI based on actual hours or cost incurred, and not based on performance or submission of contract deliverables as required under the firm fixed price contract. MBG was also allowed to continue working despite the stop work order and cancellation of the original contract resulting in additional billings.

In another audit, the Director of the Rota Health Center (RHC) violated ethical standards in public contracting provisions of the CNMI Procurement Regulations by ordering the payment of \$4,282 from RHC's funds to settle the utility bills of two RHC employees who occupied the apartment leased by the Director's spouse to RHC. The Director also requested the Rota Department of Finance to certify funds to pay her apartment manager \$5,000 for the cost of damages to the leased apartment even though the damages occurred after possession of the apartment was returned to her spouse. In addition, the Director requested DOF to pay her spouse \$4,000 rental costs on the leased apartment from November 1995 to March 1996 even though possession of the apartment had been returned to her spouse in November 1995. Lastly, the Director's Office procured a washing machine from herself and demanded \$700 payment without providing any proof of its cost and age.

Noncompliance with Laws and Regulations

Our audit of compliance with Public Law 4-32, the Compensation Adjustments Act of 1984, showed that several government agencies compensated their high-level officials in excess of the government salary ceilings established in the Act. At least 14 officials of 6 government agencies were paid salaries higher than those provided in the Act. Total excess salaries paid amounted to almost \$213,000 from December 1992 to October 1996 and additional funds continued to be expended in violation of the law.

OPA also conducted an audit of compliance with the authorized number of full time equivalent (FTE) positions by Executive Branch departments and agencies. The audit showed five departments and agencies exceeded their authorized number of FTE positions established under the annual appropriation acts. As of September 30, 1996, 103 FTE positions were found in excess of the number authorized by law and an estimated \$3.4 million were expended for these positions without legislative appropriations.

Waste and Abuse of Funds

An audit showed that the Emergency Management Office (EMO) disregarded internal controls, CNMI Procurement Regulations, and the Planning and Budgeting Act by not properly planning and controlling expenditure of public funds during its operations on the emergency detonations of unexploded depth charges in Rota on May 1, 1996 and June 10, 1996. EMO did not manage and conduct an accounting of food services provided by one vendor. Records were inadequate to evaluate the propriety of the billings, but based on the number of meals served as shown in the billings, the government paid an excessive cost of about \$40.39 per meal. This resulted in the payment of the

vendor's billings amounting to \$41,242 without any assurance of the quantity and quality of food served and without assurance that only authorized personnel were served.

Our audit of the Marianas/Hawaii Liaison Office showed questionable payments amounting to \$48,736 from the imprest fund for (1) ticket upgrades of patients and escorts without doctors' justifications, (2) hotel accommodation of patients and escorts which exceeded the usually allowed rates, and (3) unallowable funeral service costs of deceased patients. Additionally, expenses amounting to \$6,069 were reimbursed without supporting documents.

The audit also showed that the former Liaison Officer traveled to the CNMI and was paid per diem totaling \$9,964 covering the period October 1989 to February 1990 (about 4½ months). The travel authorization was amended and extended four times though the purposes of the extensions do not appear to warrant extended travel.

A review of the Public School System's travel arrangements with the former Adaptive Physical Education Specialist/Recreational Therapist showed that the employee was permitted to commute from Guam to the CNMI using government travel authorizations from March 28 until October 30, 1995, although a replacement could have been hired as early as April 1995. As a result, additional funds amounting to more than \$8,000 were expended for the employee's travel, and the employee spent only four to five hours per day performing her work because of travel time incurred.

Employees' Time and Attendance

In 1997, OPA conducted two random inspections of time and attendance of employees. OPA's random inspections began in 1995 in line with the former Governor's objective of

setting a higher standard for government employees.

Subsequent to the inspections, draft memorandums were issued to immediately bring to the attention of the agencies concerned the findings noted and proposed recommendations. The results of all the inspections dating back to 1995 have been consolidated in a draft report that was released for agency comments in early 1998.

Misuse of Government Vehicles

In 1997, OPA reported instances of misuse of government vehicles to various CNMI departments and agencies. Reports of government vehicle misuse included use of government vehicles for personal purposes during and outside of government working hours, use of government vehicles to transport non-government employees, and reckless driving.



Government vehicle found without government license plate and markings on the front doors during inspection.

In November 1996, OPA conducted a CNMI-wide inspection of vehicles assigned to CNMI government branches, departments, offices, and autonomous agencies. A draft report consolidating the results of the inspections and reported instances of vehicle misuse was issued in early 1998 for agency comments.

CNMI Lottery Operations

In compliance with 1 CMC §9320, OPA issued audit reports on government revenues from the CNMI Lottery operations for the last three quarters of fiscal year 1996 and the first two quarters of fiscal year 1997. For the last two quarters, however, the auditee failed to provide the needed documents in time for us to complete and release our audit reports in 1997.

Government Ethics Code

Ethics Unit

The Ethics Unit was established within the Audit Division in late 1996. The Unit was tasked with the responsibility of implementing and enforcing the Government Ethics Code Act of 1992. In 1997, procedures for the operation of the Ethics Unit were developed. In addition, a record keeping and follow-up system was established for receiving and investigating complaints, and preparation and issuance of reports and opinions on ethics matters.

Financial Disclosure Reporting

The Ethics Unit vigorously implemented the financial disclosure requirements of the Ethics Act. Ethics Unit staff exerted extra effort in ensuring that filing notices were received by "reporting individuals." Further, the staff attended to queries from filers regarding the requirement and the statement of financial interest.

For the first time since the Act was implemented, all "reporting individuals" filed their statements in a more timely manner. Fines assessed for late or non-filing of statements decreased significantly.

Financial Disclosure Reporting

	1995	1996	1997
No. of Persons Required to File	330	407	421
Filed on Time	286	370	417
Filed Late	41	24	4
Did Not File	3	13	0
Civil Penalties Assessed	\$3,889	\$4,930	\$180
Cases Referred to the AG	13	20	0
Resolved	10	4	0
Unresolved	3	16	0

Public Education Campaign

In an effort to better educate the public about the CNMI Government Ethics Code Act, OPA developed five pamphlets which provided information on the following topics:

1. Conflict of Interest
2. Gifts and Gratuities
3. Political Activity
4. Complaints on Ethics Violations
5. Filing Financial Disclosure Statements

Of the five pamphlets, the first four were released in 1997, while the fifth pamphlet, "Filing Financial Disclosure Statements" was released in early 1998.

In addition to the pamphlets, OPA gave presentations on the Ethics Act to various government agencies. The presentations provided a forum for public officials, employees and the general public to ask questions and obtain clarifications on specific cases.

Complaints and Investigations

In 1997, OPA received 13 complaints on ethics violations. During the year, one final ethics report and two draft reports were issued.

Also, OPA began developing a database that will provide the ability to match reported financial disclosure information with third-

party information. The database when completed will assist OPA in determining the accuracy and reliability of reported data and assist in investigations of ethics violations.

Inquiries and Opinions

During the year, OPA received numerous inquiries (20 to 25 per week) about Ethics matters. These inquiries generally did not require investigation and responses were made either orally or in writing.

Decisions Rendered on Procurement Appeals

OPA received seven appeals of bid protest decisions by the Division of Procurement and Supply and the Public School System. The seven appeals protested either the award of contracts or the agency's intent to award a contract. In addition, OPA also reviewed three appeals outstanding from 1996 for a total of ten appeals processed in 1997.

Decisions were rendered on seven of the ten cases. Three appeals were granted, while four were denied. The remaining three appeals were pending review as of year end, but decisions were issued in 1998.

In 1997, appeals were granted for the following reasons:

- # improper evaluation of proposals
- # violations of specific provisions of the CNMI Procurement Regulations pertaining to competitive sealed proposals.
- # significant flaws in the solicitation which were prejudicial to fair and open competition.

In all of the appeals granted, the soliciting

agencies accepted OPA's recommendation to resolicit proposals or bids.

Appendix D lists decisions on appeals of bid protest issued in 1997.

Investigative Activities

The Investigation Division was established to provide OPA with the capability to conduct investigations into allegations of fraud, waste, abuse or irregularities in the programs and operations of the CNMI Government. During the year, the Investigation Division investigated cases involving violations of procurement regulations, fraud, misuse of government funds, misuse of government property, misuse of government vehicles, embezzlement, theft, and violations of the Ethics Act.

OPA boosted its investigation capabilities by acquiring a polygraph instrument. The instrument is a tool used in the United States to aid investigators in determining the reliability of statements provided by witnesses. An OPA investigator was sent to the U.S. Mainland to receive training and certification in using the instrument and evaluating the results obtained from it.

The Investigations Division also provided assistance to other law enforcement agencies including the Federal Bureau of Investigation.

Referrals to the Attorney General

The law requires the Public Auditor to refer matters to the Attorney General whenever the Public Auditor has reasonable grounds to believe there have been violations of either federal or Commonwealth criminal laws. Also,

the law states that if the Public Auditor believes that civil recovery proceedings are appropriate, the Public Auditor shall refer the matter to the Attorney General. The Public Auditor may file civil actions with the approval of the Attorney General.

In 1997, OPA and/or the audited agencies referred 10 cases to the Attorney General's Office. In addition, 28 cases were outstanding from prior year referrals - 14 from 1995 and 14 from 1996.

Appendix C shows outstanding referrals in 1997 and their status.

Internet Web Site

OPA's world wide web site was established to provide the public access to information about OPA and its activities.

The web site contains background information on OPA. The site also provided a medium for informing the public of audit and letter reports released, Government Ethics Act requirements, job vacancies, fraud, waste and abuse hotline information, and links to audit and legal resources on the Internet. In mid-1997, decisions issued on procurement appeals were also posted.

The web site was established in December 1996. However, visits to the site were not tracked until March 1997. From March through December 1997, OPA's web site was visited by 6,281 users from different parts of the world. Also, visitors viewed or downloaded electronic versions of OPA reports and decisions 744 times. Audit and letter reports issued, decisions on procurement protests, and the statement of financial interest form were available to the public for viewing or downloading online.

OPA's world wide web site can be accessed at <http://opacnmi.com>.

Independent CPA Firm Audits

Independent Certified Public Accounting (CPA) firms conducted financial and compliance audits of the CNMI Government and its agencies. The purposes of the audits were: (1) single audits in accordance with the U.S. Office of Management and Budget (OMB) Circular A-128 (Audits of State and Local Governments) or OMB Circular A-133 (Audits of Institutions of Higher Education and Other Non-Profit Organizations), (2) financial statement audits, (3) study and evaluation of internal accounting controls, and (4) financial and compliance audit of a Federal grant program.

In 1997, nine audit reports were issued by the CPA firms, while field work was ongoing on four audits as of year end. Appendix B provides a complete listing of independent CPA firm audits.

Other Activities

Legislative Hearings

During the year, the Public Auditor testified in several Legislative Hearings. From April to July 1997, the Public Auditor attended and testified in budget hearings for various CNMI Government departments and agencies. Also, late in the year, testimonies were given during the Legislature's investigation of the Tinian Casino Gaming Control Commission's financial situation.

Technical Assistance

At the request of other government branches, departments, and agencies, OPA provided technical assistance on the preparation of the CNMI Budget. Also, OPA assisted in researching information pertaining to proposed legislation.

APIPA Conference

OPA participated in the annual conference of the Association of Pacific Island Public Auditors (APIPA) held in May 1997. The one-week conference provided a forum for sharing experiences and solutions to audit issues common to the Pacific Islands. The conference also provided needed training to OPA staff on audit management and supervision.

Peer Review

In October 1997, OPA received a full compliance report from the National Public Auditor of the Federated States of Micronesia when it conducted a “peer review” of OPA’s operations in accordance with the APIPA Quality Control Review Guide. The review covered audits done by OPA in fiscal years 1996 and 1997.

The review showed that OPA’s system of internal quality control was suitably designed and provided reasonable assurance that applicable government auditing standards were followed in its audit work. The auditors also concluded from the sample of audits tested that OPA’s quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

See Appendix E for the full text of the “peer review” report. □



FSM Public Auditor Rensley Sigrah hands his “peer review” report on OPA’s audit operations to CNMI Public Auditor Leo LaMotte. OPA received a Full Compliance Report, the highest of three possible ratings an office could receive in a “peer review.”

Appendix A - OPA Audit Reports Issued

Report No.	Issue Date	Dept/Agency	Report Title/Audit Period	Audit Period
LT-97-01	01/23/97	DCCA Aging Office	Audit and Investigation of Missing Collections for the ManAmko Fund-raising	May 28 to June 19, 1996
LT-97-02	02/06/97	DPH	Audit and Investigation of Missing Funds at the Commonwealth Health Center	September 23 to October 16, 1996
LT-97-03	02/24/97	DOF	Final Audit Report on Government Revenues from the CNMI Lottery Operations for the Second Quarter of FY 1996 Ending March 31, 1996	2nd Qtr FY 1996
AR-97-01	02/27/97	M/HLO	Audit of Expenditures of the Marianas/Hawaii Liaison Office	July 1, 1990 to January 9, 1994
AR-97-02	03/04/97	CNMI Government	Audit of Compliance with the Compensation Adjustments Act (Government Ceiling)	As of October 30, 1996
AR-97-03	03/10/97	PSS	Audit of Travel of Former Recreational Therapist/Adaptive Physical Education Specialist	March 28 to October 30, 1995
AR-97-04	03/12/97	DOF	Final Audit Report on Government Revenues from the CNMI Lottery Operations for the Third Quarter of FY 1996 Ending June 30, 1996	3rd Qtr FY 1996
AR-97-05	03/20/97	Executive Branch	Audit of Professional Contracts	October 1991 to July 1995
AR-97-06	04/23/97	DPH	Audit of Rota Health Center Director's Claims Against the Rota Health Center	December 1993 to March 1996
LT-97-04	05/08/97	DCCA Aging Office	Audit and Investigation of Reported Missing Equipment	August and September 1996
LT-97-05	05/29/97	Executive Branch	Audit of Compliance with the Authorized Number of Full Time Employment Positions by Government Departments and Agencies	As of September 30, 1996
AR-97-07	06/03/97	Developmental Disabilities Council	Audit of Misuse of Funds and Resources	
AR-97-08	06/05/97	DOF	Final Audit Report on Government Revenues from the CNMI Lottery Operations for the Fourth Quarter of FY 1996 Ending September 30, 1996	4th Qtr FY 1996

Report No.	Issue Date	Dept/Agency	Report Title/Audit Period	Audit Period
AR-97-09	06/17/97	DLI	Audit and Investigation of Improper Procurement and Payment for Renovation of the DLI Detention Center	As of January 10, 1997
AR-97-10	07/21/97	DOF	Final Audit Report on Government Revenues from the CNMI Lottery Operations for the First Quarter of FY 1997 Ending December 31, 1997	First Qtr FY 1997
AR-97-11	08/12/97	Office of the Special Assistant for Drug and Substance Abuse	Audit of Procurement of Professional Services from MGB Management Services, Inc.	March 27, 1996 to February 28, 1997
LT-97-06	12/01/97	DOF	Final Audit Report on Government Revenues from the CNMI Lottery Operations for the Second Quarter of FY 1997 Ending March 31, 1997	2nd Qtr FY 1997
AR-97-12	12/10/97	EMO	Investigation on Lack of Fiscal Control in Food Service Operations During the Emergency Detonation of Depth Charges in Rota	August 1995 to August 1996

Appendix B - Independent CPA Firm Audits

Audit Reports Issued

Auditee	Auditor	Type of Audit	Report Date
1. CNMI Government	Deloitte and Touche	Financial and compliance audit in accordance with OMB Circular A-128 (single audit requirements of states and local governments) for FY 1996.	March 7, 1997
2. Commonwealth Development Authority	Deloitte and Touche	Financial and compliance audit in accordance with OMB Circular A-128 for FY 1997.	December 12, 1997
3. Commonwealth Govt. Employees' Credit Union	Burger & Comer, P.C.	Audit of financial statements for FY 1996	April 30, 1997
4. Marianas Public Land Trust	Deloitte and Touche	Financial and compliance audit in accordance with OMB Circular A-128 for FY 1996.	January 20, 1997
5. Marianas Public Land Trust	Deloitte and Touche	Financial and compliance audit in accordance with OMB Circular A-128 for FY 1997.	November 13, 1997
6. Marianas Visitors Bureau	Burger & Comer, P.C.	Audit of financial statements for FY 1997.	December 18, 1997
7. NMI Health & Life Insurance Trust Fund	Burger & Comer, P.C.	Audit of financial statements for FY 1996	April 1, 1997
8. Northern Mariana Islands Retirement Fund	Burger & Comer, P.C.	Audit of financial statements for FY 1996.	April 30, 1997
9. Worker's Compensation Commission	Burger & Comer, P.C.	Audit of financial statements for FY 1996	March 31, 1997

Audits in Progress

Auditee	Auditor	Type of Audit	Status
1. Commonwealth tion	Deloitte and	Financial and compliance audit in accordance with OMB Circular	Audit is ongoing.
2. Ports Authority	Deloitte and	Financial and compliance audit in accordance with OMB Circular	Audit is ongoing.
3. College	Burger &	Financial and compliance audit in accordance with OMB Circular for institutions of higher education and other non-profit organizations)	Audit is ongoing.
4. System	Deloitte and	Financial and compliance audit in accordance with OMB Circular	Audit is ongoing.

Appendix C - Referrals to Attorney General's Office Outstanding and Closed During 1997

Reference	Status of Referral
1. OPA referral letter dated 3/23/95 (AR-95-09)	The matter was settled in June 1997 when the vendor agreed to pay the CNMI \$7,000 in installments of \$500 per month. The vendor has been making payments pursuant to the settlement agreement. The final payment is due on July 1998.
2. OPA referral letter dated 6/23/95 (AR-95-19)	The current status was not provided by AGO.
3. OPA referral letter dated 7/5/95 (LT-95-04)	The matter is under investigation by the Civil Division.
4. OPA referral letter dated 8/14/95 (AR-95-17)	The current status was not provided by AGO.
5. OPA referral letter dated 9/15/95	According to the AGO, given the nature of the violations and the changes in the administration and department, the matter should be handled administratively. Thus, AGO do not intend to take any action.
6. OPA referral letter dated 9/27/95 (AR-95-21)	The matter is under investigation by the Civil Division.
7. OPA referral letter dated 10/3/95 (AR-95-22)	The matter is under investigation by the Civil Division. However, AGO has not filed any civil action.
8. OPA referral letter dated 10/10/95 (AR-96-05)	The Civil Division is still considering possible legal theories under which the Commonwealth could bring a cause of action.
9. OPA referral letter dated 10/24/95	The case was dismissed without prejudice due to procedural reasons. The matter has been referred to OPA for civil prosecution.
10. OPA referral letter dated 05/13/97 (Case#96-0033)	The case is being handled by the Criminal Division. However, the matter was referred to OPA for further investigation.
11. OPA referral letter dated 05/19/97 (LT-97-05)	The matter is under investigation by the Civil Division.
12. OPA referral letter dated 06/02/97 (AR-97-07)	The Criminal Division declined to prosecute. However, the matter is under investigation by the Civil Division.
13. OPA referral letter dated 06/17/97 (AR-97-09)	The matter was investigated by the Investigations Unit. However, the current status was not provided by AGO.
14. OPA referral letter dated 10/01/97 (AR-97-04)	The matter is under investigation by the Civil Division.

Reference	Status of Referral
15. OPA referral letter dated 10/21/97	
16. OPA referral letter dated 12/10/97 Report #AR-95-07 Report #AR-95-11 Report #AR-95-12 Report #AR-95-18	The matter is under investigation by the Criminal Division The matter is under investigation by the Civil Division. The matter is under investigation by the Civil Division. The matter is under investigation by the Civil Division. This case is currently pending in the Superior Court and
21. Report #AR-96-05 Report #LT-96-04, OPA Case#95-0003	theories under which the Commonwealth could bring a cause of action. will likely be referred to the Criminal Division for review.
23. OPA Case#96-0002 Report #LT-96-07, OPA Case#96-0024	The matter is under Investigation by the Civil Division. ever, the current status was not provided by AGO.
25. OPA Case#96-0003 OPA Case#96-0001 OPA Case#96-0004 (LT-97-01) OPA Case#96-0005	The matter is under investigation by the Civil Division. The matter is under investigation by the Civil Division. trial was scheduled last December 1997. However, current status was not provided by AGO. The matter is under investigation by the Criminal Divi-
29. OPA Case#96-0009	sion.
30. OPA Case#96-0036 (AR-97-06) OPA Case#96-0038	Charges were filed but were dismissed with prejudice by the Criminal Division due to the death of a key witness. However, the matter will be referred to OPA for further investigation. Charges were filed by the Criminal Division and the May 1998.
33.	The Civil Division reviewed this matter and determined that no action by the AGO was warranted.

Reference	Status of Referral
34. OPA Case#96-0044	Charges were filed by the Criminal Division. The case is active and is being prosecuted.
35. OPA Case#97-0012	The matter was referred to the Criminal Division. However, the current status was not provide by AGO.
36. OPA Case#97-0020	Charges were filed by the Criminal Division. The case is presently under the Adult Diversion Program.
37. DOF legal counsel referral letter to AG dated 11/13/95	Current status was not provided by AGO.
38. Memo to Secretary of Finance from Director of Personnel dated March 13, 1997	The matter is under investigation by the Civil Division.

Appendix D - Decisions on Bid Protest Appeals Issued in 1997

Decision No. BP-A011

Appellant: Merced V. Reyes, dba M.V. Reyes Catering
Subject of Appeal: PSS School Breakfast and Lunch Program

Description:

The Education on PSS Request for Proposals (RFP) No. 97-005. This RFP was a solicitation of proposals for the of the PSS school breakfast and lunch program for the school year 1997-1998 covering all the public elementary. peer programs on Saipan, Tinian and Rota. We denied the appeal. As stated in the appeal decision, we

merit as they constitute merely appellant's opinions without convincing supporting evidence that there was significant violation of the PSS Procurement Regulations. The appeal grounds do not warrant a cancellation of the "intent to award" under this RFP.

Decision No. BP-A010

Appellant: Mariana Pacific, Inc.
Subject of Appeal: Design-Build of 60 Classrooms at Various Public Schools under an Amended RFP
Date Issued: 9/19/97

Description:

The appeal resulted from the Procurement and Supply Director's denial of the appellant's protest on the Request for Proposals (RFP) No. DPW96-RFP-015 (as amended). In the amended RFP, all original proposers were invited to submit revisions of their earlier proposals in accordance with the revised scope of work for the design-build of the 60 classrooms at various CNMI public schools. We decided to deny the appeal. As stated in the appeal decision, the grounds cited by the appellant were either (1) not persuasive as having no valid bases, (2) without merit as they are merely the appellant's opinions which were not supported by convincing evidence, (3) considered irrelevant since they have already been addressed by OPA's previous decision dated April 4, 1997, or (4) not an adequate basis for relief since we can find no proof of prejudicial harm or damage to the appellant. The decision further stated that the appeal grounds do not warrant a cancellation of the contract award already made on this RFP.

Decision No. BP-A009

Appellant: JWS Air Conditioning & Refrigeration, Ltd.
Subject of Appeal: Procurement of 118 Air Conditioners for Marianas High School
Date Issued: 8/22/97

Description:

The appeal resulted from the Commissioner of Education's denial of the appellant's protest on the Public School System (PSS) Invitation for Bids (IFB) No. 97-005 pertaining to the procurement of 118 air conditioners for Marianas High School (MHS). PSS IFB 97-005 was a solicitation of bids from vendors for the delivery of: (1) 118 air conditioners for MHS, (2) 30 air conditioners for Rota schools, and (3) one riding mower for Rota PSS. We decided to grant the appeal in part. In the appeal decision, PSS was directed to cancel the portion of IFB 97-005 that pertains to the procurement of 118 air conditioners for MHS, and re-advertise a new solicitation of bids. Deficiencies noted on IFB 97-005, as discussed in the appeal decision, warranted a cancellation of the solicitation.

Decision No. BP-A008

Appellant: Pacific Security Alarm, Inc.
Subject of Appeal: Electrical System for the Saipan Judicial Complex

Description:

The appeal pertains to the denial by over the decision of the Department of Public Works (DPW) to award the contract under Request for Proposal proposer on this solicitation. OPA determined that the CNMI Government has no other option than to ratify the protest had reached the point where an award to the appellant was no longer feasible. Therefore, it was necessary to deny the appeal.

Decision: BP-A007

Subject of Appeal: Design/Construction of Classrooms for Various Public Schools
Date Issued: 4/4/97

The appeal resulted from the failure of the Director of Procurement and Supply (P&S) to decide on appellant's within the required time. The subject of the protest was Request for Proposal (RFP) No. DPW96-RFP-015 issued solicitation of sealed proposals for professional design services and construction of classrooms at various schools. The appeal was granted in part. In the decision, P&S and DPW were directed to undertake either their proposals based on the revised scope of work. In view of the urgency of the classrooms project, the

Decision No. BP-A006

Appellant: Leng's Enterprises
Subject of Appeal: PSS School Breakfast and Lunch Program
Date Issued: 2/24/97

Description:

The appeal was from the denial by the Commissioner of Education of appellant's protest on the solicitation of proposals for the operation of the Public School System (PSS) school breakfast and lunch program for the school year 1996-1997 in Rota. In the decision, it was determined that Leng's protest with PSS was not timely filed as it failed to meet the Public School System Procurement Regulations requirements.

Decision No. BP-A005

Appellant: Mr. Felipe Q. Atalig
Subject of Appeal: PSS School Breakfast and Lunch Program
Date Issued: 1/8/97

Description:

The appeal was filed after the denial by the Commissioner of Education of appellant's protest on Public School System (PSS) Request for Proposal No. 96-004 which was a solicitation of proposals for the operation of the PSS school breakfast and lunch program for the school year 1996-1997. The decision granted the appellant's request for a new evaluation team to be formed and reevaluate the proposals.

Appendix E - Peer Review Report on OPA



Office of the Public Auditor

FEDERATED STATES OF MICRONESIA

P.O. BOX PS 05

PALIKIR, POHNPEI FM 96941

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October 23, 1997

Mr. Leo LaMotte, Public Auditor
Office of the Public Auditor
Commonwealth of the Northern Mariana Islands
P.O. Box 1399
Saipan, MP 96950

Dear Mr. LaMotte:

We have completed an external quality control review of the CNMI, Public Auditor's Office for audits issued during the period June 1, 1996 through May 30, 1997. In conducting our review, we followed the standards and guidelines contained in the *APIPA Quality Control Review Guide* published in September 1995 by the Association of Pacific Island Public Auditors.

As prescribed by the *APIPA Guide*, we reviewed the internal quality control system of your audit organization and tested a sample of audits conducted by your office for compliance with government auditing standards issued by the Comptroller General of the United States. Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that applicable government auditing standards were followed in your audit work. We have also concluded from the sample of audits tested that your quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

It is our opinion therefore, that the CNMI, Public Auditor's Office was in compliance with government auditing standards during the period June 1, 1996 through May 30, 1997. We have prepared a separate letter to management which offers suggestions for further strengthening your internal quality controls.


Rensley Sigrav, CGFM
Federated States of Micronesia


James A. Blair, CIA, CPA
Federated States of Micronesia


Anita L. Ioanis, CPA
Federated States of Micronesia