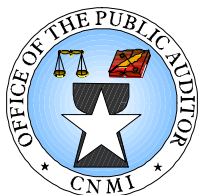


Investigation on Lack of Fiscal Control
in Food Service Operations
at the Emergency Management Office
During the Emergency Detonation of
Unexploded Depth Charges in Rota



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EXECUTIVE SUMMARY

This report presents the result of our investigation on the lack of fiscal control in emergency food service operations. The audit shows that 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. The detonations were actually performed by the United States Navy Explosive Ordinance Disposal Detachment and not by EMO. EMO was the local agency responsible for coordinating all other agencies involved, ensuring the safety and completion of the operations, and providing funds for the expenses of the operation.

Although referred to as an emergency operation, there was sufficient time to plan and schedule the detonations. EMO, however, did not adequately plan how food services were to be provided. It appeared that referring to the detonations as an emergency operation became an excuse for not limiting spending to what is allowed by law and regulations.

The food service vendor claimed that EMO lacked control over the type and quantity of food items and alcohol that were served. The vendor said that expensive types of food items and alcohol were ordered, and that there was no instruction or list to determine which government personnel were authorized to receive food services. The vendor complained to us when it appeared that his bill of \$41,242 might not be totally paid.

The vendor did not initially present an itemized billing statement showing expensive food items and alcohol. The vendor, however, presented billing statements supported by daily meal tickets acknowledged by EMO representatives, which showed that 1021 meals were served and that the total cost was \$41,242 or \$40.39 per meal. The vendor also claimed that when he presented his

bills, EMO officials asked him to present a bill for a lesser amount and promised him that the balance would be paid in the future through some other unspecified transactions. EMO officials denied making this promise to the vendor. Our audit showed however, that subsequently the vendor submitted partial billings which were paid in partial amounts.

Now the total bill of \$41,242 has been paid, and it appears that EMO was actually obliged to pay that amount but did not have sufficient funds at that time. Had EMO not been liable, it could have flatly rejected the vendor's billings and presented a valid reason for rejection. It appears that the vendor's allegation of being promised payment in partial amounts was true. What happened was that the vendor initially agreed to the EMO official's scheme of presenting the bills in several small amounts to avoid scrutiny and increase chances for approval of payment. When he was not paid as promised, the vendor then resorted to going directly to higher officials of the executive branch. The other officials then realized that the government was obliged to pay because EMO had no controls in place and no documentation of the food service

Food service expenses of \$41,242 was paid without assurance on the quantity and quality of food served.

transactions that could be used to reject the vendor's claim.

Background

In April 1996, the CNMI Government through the Emergency Management Office requested the assistance of the United States Navy Explosive Ordinance Disposal Detachment to assess the danger posed by several unexploded depth charges from World War II in Rota's harbor. It was reported by the Explosive Ordinance Disposal experts that the deteriorating condition of the depth charges should be considered extremely hazardous to public safety. A state of emergency in Rota was twice declared by the Governor effective on May 1, 1996 and June 10, 1996, during which time the U.S. Navy detonated the depth charges in place.

The detonation operations occurred between April 25 and June 15, 1996. Chong Investment & Leisure Company, doing business as Tony's Restaurant (vendor) in Rota, was contacted by the Rota Director of Procurement and Supply to provide food services on a government account during the detonation operations.

A complaint was received from the Rota vendor that payment could not be obtained for food services provided to the government and on August 7, 1996, the Office of the Public Auditor began an investigation concerning possible fiscal abuse in the procurement of food services.

Objectives and Scope

The objective of the investigation was to determine whether internal controls were adequate regarding planning and

managing food service operations under emergency conditions.

From August 7 to November 19, 1996, we examined, reviewed and compiled billing statements, memoranda, and written correspondence. We also interviewed witnesses concerning the investigation into lack of fiscal control in food service operations. We conducted our investigation at Tony's Restaurant and at EMO in Rota, OPA in Gualo Rai and EMO on Capitol Hill, Saipan.

Lack of Fiscal Control in Emergency Food Service Operations

The Office of Emergency Management should have written policies and procedures for procurement of goods and services under emergency conditions in order to have fiscal control. Our investigation showed, however, that there was a lack of fiscal control in food service operations during two declared states of emergency. This occurred because no policies and procedures have been developed and implemented for procurement of goods and services during emergencies. EMO did not manage and conduct an accounting of food services provided by one vendor. As a result, EMO representatives acknowledged, and EMO then paid, the vendor's billing of \$41,242 without any assurance of the quantity and quality of food served and without any assurance that only authorized personnel were served. 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 \$40.39 per meal.

Accordingly, we recommend that the Director of EMO:

1. In coordination with the Director of Procurement and Supply, develop and implement written policies and procedures for procurement of goods and services under emergency conditions, including a requirement that EMO, jointly with the Division of Procurement and Supply, establish the standard rate for cost of meal per individual during emergency operations. These policies and procedures should be provided to vendors along with a list of personnel allowed to be served. Standard rates should be based on a survey of menus, and all steps in establishing the rate should be documented.
2. Designate in writing a specific person to review and sign for food services during daily emergency operations.
3. The Director of EMO amend the handbook on Emergency Operations Planning to include the previously issued policies and procedures for the procurement of goods and services under emergency conditions.
4. The Governor require EMO to prepare a financial plan to meet the cost of each emergency operation, including food service costs. This financial plan should then be filed by the Governor with the Legislature as provided in 1 CMC §7403.

*Emergency Management Office
Response*

In his letter response dated March 11, 1997 (Appendix A), the Director of EMO commented that Recommendation 1 suggesting there be a policy for the procurement of supplies, goods and services under emergency conditions should be addressed instead to the Director of Procurement and Supply. The Director of EMO believes that all procurement matters should be embodied in the CNMI Procurement Regulations, and that any change involving procurement of supplies, services and other goods under emergency conditions should be implemented in the Procurement Regulations for all types of scenarios.

Governor's Response

In his letter response dated March 25, 1997 (Appendix B), the Governor agreed with our recommendation that the procurement of food services during a declared State of Emergency should be more closely controlled and fiscally limited to the best extent possible. As to the matter of properly reporting the two

Other Matters

EMO has published a handbook on Emergency Operations Planning. The handbook should be revised to include the policies and procedures for procurement of goods and services.

In addition, the Governor was not able to submit a financial plan on the emergency to the Legislature because EMO did not submit one to him. As a result, the Legislature was not made aware of the financial impact of the emergency, thus preventing the Legislature from appropriating adequate funds for the emergency and imposing limitations on spending as appropriate.

Accordingly, we recommend that:

declared states of emergency to the Legislature, the Governor provided us copies of the cover letters to the Senate President and Speaker of the House with attached Declarations in which the scope of the emergencies was fully discussed. He stated that given the limited duration and scope of the two emergencies, EMO anticipated paying its operational costs from its own budget. He felt there was no need to seek additional appropriations or to have funds reprogrammed to handle the expenditures associated with these two declared emergencies.

In the Governor's letters to both the Senate President and the Speaker of the

House, he stated that it was expected that the State of Emergency would be of short duration and that the Commonwealth Government's role was not expected to constitute a significant financial burden necessitating a financial plan pursuant to 1 CMC §7403.

*Office of the Public Auditor
Comments*

Based on the responses we received, we consider all four recommendations open. The additional information or action required to close the recommendations is presented in Appendix C.

Introduction

Background

In April 1996, the CNMI Government through the Emergency Management Office (EMO) requested the assistance of the United States Navy Explosive Ordinance Disposal Detachment to assess the danger posed by several unexploded depth charges from World War II in Rota's harbor. It was reported by the Explosive Ordinance Disposal experts that the deteriorating condition of the depth charges should be considered extremely hazardous to public safety. A state of emergency in Rota was twice declared by the Governor effective on May 1, 1996 and June 10, 1996, during which time the U.S. Navy detonated the depth charges in place.

The detonation operations occurred between April 25 and June 15, 1996. Chong Investment & Leisure Company, doing business as Tony's Restaurant (vendor) in Rota, was contacted by the Rota Director of Procurement and Supply to provide food services on a government account during the detonation operations.

A complaint was received from the Rota vendor that payment could not be obtained for food services provided to the government and on August 7, 1996, the Office of the Public Auditor began an investigation concerning possible fiscal abuse in the procurement of food services.

Objectives, Scope, and Methodology

The objective of the investigation was to determine whether internal controls were adequate regarding planning and managing food service operations under emergency conditions.

From August 7 to November 19, 1996, we examined, reviewed and compiled billing statements, memoranda, and written correspondence. We also interviewed witnesses concerning the investigation into lack of fiscal control in food service operations.

We conducted our investigation at Tony's Restaurant and at EMO in Rota, OPA in Gualo Rai and EMO on Capitol Hill, Saipan. The audit was made, where applicable, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as were considered necessary under the circumstances.

Prior Audit Coverage

This is OPA's initial audit of emergency food service operations of EMO.

Findings and Recommendations

A. Lack of Fiscal Control in Emergency Food Service Operations

EMO incurred \$41,242 in food service expenses without assurance on the quantity and quality of food served.

The Office of Emergency Management should have written policies and procedures for procurement of goods and services under emergency conditions in order to have fiscal control. Our investigation showed, however, that there was a lack of fiscal control in food service operations during two declared states of emergency. This occurred because no policies and procedures have been developed and implemented for procurement of goods and services during emergencies. EMO did not manage and conduct accounting of food services provided by one vendor. As a result, EMO representatives acknowledged, and EMO then paid, the vendor's billing of \$41,242 without any assurance of the quantity and quality of food served and without any assurance that only authorized personnel were served. 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 \$40.39 per meal.

"Open" Menu as Opposed to Controlled Menu

The vendor told us that the Rota Director of Procurement and Supply contacted him to establish an account available at his restaurant for personnel working on the depth charges' detonation under the declared emergency. The vendor stated that although he suggested a limited menu that would be controlled by an expense schedule for breakfast, lunch and dinner, the Director decided on an "open" menu. The vendor told us that although buffet meals were served, the operations personnel also began to order more expensive items such as lobsters, live mangrove crabs, various cuts of steak, and liquor. The vendor claimed that food and drink charges for the period May 7, 1996 through June 14, 1996 amounted to \$41,242. He provided billing documentation for his claim, which contains daily dish itemizations for 1021 meals served, averaging \$40.39 per meal.

The OPA Investigations Unit interviewed 26 operations personnel. They stated that they only ate food items served on the buffet. Two of the individuals interviewed acknowledged that they had seen others obtain side orders of cheeseburgers and steaks but except for the steaks, none of the personnel reported seeing service of expensive items such as lobster. Personnel interviewed acknowledged that liquor was consumed at government expense in the evenings at the vendor's establishment. The EMO Administrative Specialist informed us that she coordinated meal service daily by telephone, at which times she gave her choices of food items that would be served on the buffet. She said she had no knowledge of any arrangements having been made for operations personnel to order anything they liked.

The vendor told us that the numbered table tickets were prepared at the conclusion of the operation from “notes” now disposed of. An itemized version of the billing containing orders of lobster was not produced until after the complaint was made to OPA on August 8, 1996. Some food service was recorded to have occurred on dates when the operation was reportedly not in progress (May 20, 23, 31, and June 3, 1996). In addition, it appears that the billing for ala carte food and drink service expense totaled exactly \$3,000 for the first three days of the operations.

The statements and documents gathered were inconclusive to corroborate the vendor’s claim of serving exotic food items. However, there is evidence of lack of control in the planning of meals to be served, and in limiting both the quantity of meals to be consumed and the number of persons authorized to eat at government expense.

Approval of Food and Drink Orders

According to the vendor, EMO personnel and others began to order more expensive items such as lobsters, live mangrove crabs, and various cuts of steak. The vendor stated that he sought the approval of the Rota Director of Procurement and Supply initially by telephone.

The OPA Investigations Unit conducted two interviews with the Rota Director of Procurement and Supply to confirm whether the vendor’s claim was valid. The Director said on August 7 and September 10, 1996 that he recalled giving the vendor approval for routine service of items such as lobsters, live mangrove crabs and steak. The Director said that he gave the approval because he did not believe it was his responsibility to decide what the emergency personnel could or could not eat. He further stated that he did not know who was responsible for the determination. On September 13, 1996, we received a copy of a memorandum from the Director dated June 19, 1996. The memo seeks to justify food service expenses for the period May 6-11, 1996 and states that 40-60 individuals were served at each meal. It also contains a modest menu of food items served. We pointed out to the Director that he had neglected to include lobsters in the menu provided for justification. Contrary to his earlier statements on August 7 and September 10, 1996, the Director stated that he had no knowledge of lobsters being served. He further stated that he had never been contacted by the vendor requesting authorization and even if he had been, it was not his responsibility.

The table tickets were prepared at the conclusion of the operation from notes since disposed of. The vendor provided OPA six billing statements supported by 32 table tickets with a total of \$41,242, and which according to the vendor, constituted the actual billing according to his records. Each billing statement showed a breakdown of the number of persons served per meal and a description of the food and drinks ordered. The table tickets, however, just indicated the total amount of food and drink served. The table tickets were sequentially numbered and signed by the Rota EMO Representative and the Rota Director of Procurement and Supply.

There is evidence of lack of control in the verification and approval of meals served. No one was designated to verify the accuracy of billing and to sign for the service delivered as it was received. Table tickets were signed at one time, apparently without scrutiny by the Rota EMO Representative and the Rota Director of Procurement and Supply who were probably not present when all food services were delivered.

Approval of Number of Operations Personnel Served

The vendor also claimed that the situation appeared to him to be getting out of hand. He informed us that it got to the point where people from Rota, Saipan EMO staff, and other individuals unknown to him were brought in to be served. The vendor stated that he checked with some local officials who were also eating and asked if they were part of the emergency response group. He stated that he specifically asked the Governor's Representative in Rota, his Administrative Assistant, and the Rota Director of Procurement and Supply, each of whom claimed authorization to eat at the restaurant on the EMO account.

We sought to verify the claim of the vendor with the three individuals he identified. The Rota Director of Procurement and Supply stated that he recalled giving the vendor approval for people to eat on the government account but only those individuals who were part of the emergency response team. The Governor's Representative to Rota and his Administrative Assistant denied giving the vendor permission or verification for anyone to eat on the account. The Administrative Assistant to the Governor's Representative admitted that he had eaten meals which were charged to the EMO account.

The vendor was not provided with a list of the persons participating in the emergency operations. The 60 persons listed on his billings were based on an estimated number of persons who were served per meal during the emergency operations. We requested EMO to provide us a listing of everyone who participated in the detonation operations, including all CNMI government employees and all persons who were not CNMI government employees. According to the list provided to us there were supposedly 83 participants.

Based on this information, there is evidence of lack of control in specifying to the vendor which personnel involved in the emergency operations were authorized to eat on the government account.

Revision in Billing

The vendor stated that he submitted a bill for \$41,242 to Saipan EMO after the operations. EMO records reflect receiving an initial billing of \$29,505 on June 10, 1996. The billing was approved by EMO and a purchase requisition was sent to the Department of Finance (DOF). It must have been a partial billing because the operations continued obtaining food service from the vendor from June 11-15, 1996. DOF rejected the purchase requisition because, according to the Secretary of Finance,

the food expense for the detonation operation was too high. The Secretary requested the Director of EMO to provide justification for the expense.

The vendor said that he was subsequently asked by the EMO Response Recovery Coordinator to submit an amended billing of a lesser amount because the allotment for meal service operation had changed. The vendor agreed to submit an amended billing because he was promised that the difference would be paid later through some other unspecified transaction.

The EMO Response Recovery Coordinator denied instructing the vendor to submit a reduced billing and promising to arrange payment for the difference at a later date. Instead, he stated that he had informed the vendor that the bill was too high and that the acceptable level of expenditure for meal service in Rota was \$12 per meal. He further stated that he told the vendor that EMO frequently needs catering services during typhoons and it was likely that the vendor's service would be used again if his billing was perceived as reasonable.

In any event, the vendor prepared and submitted an amended bill of \$22,320. The billing statement was for 31 servings (table tickets) at \$720. Each serving was for 60 persons at \$12 per meal. EMO, however, only acknowledged receiving a revised billing of \$18,000. EMO prepared a purchase requisition dated August 23, 1996 for \$18,000. Attached to the purchase requisition were only 25 table tickets. The Department of Finance partially paid \$10,080 on October 4, 1996 and paid the balance of \$7,920 on January 7, 1997.

Our review of Department of Finance accounting records showed that the partial payment of \$10,080 was encumbered under EMO's fiscal year 1996 expense account for food items. The food items' account had a budget of only \$11,000 but actual expenditures and encumbrances totaled \$26,958, resulting in a budgetary deficit of \$15,958 in fiscal year 1996.

The balance of \$7,920 was paid on January 7, 1997 out of a special account not under the EMO for Typhoon Yates/Verne, also under the expense for food items. The food items' account had a budget of only \$1,771 and that amount was earmarked for encumbrances carried forward from the prior year. There is, therefore, no justification for paying EMO expenses out of this Typhoon Yates/Verne account. The food items' expense in this account shows a budgetary deficit of \$14,184 in fiscal year 1997.

On April 2, 1997, EMO again authorized another payment of \$4,320 to the vendor. This payment, representing the balance of the 1996 billing, was made from EMO's 1997 expense account for food items. This additional payment corroborated the vendor's statement that he was asked by EMO Response Recovery Coordinator to submit partial billings. The payment also proved that EMO really intended to pay \$22,320 to the vendor and not merely \$18,000.

Subsequently, the vendor pursued full collection of the \$41,242 original billing submitted to EMO. On August 7, 1997, full payment was made to the vendor for the balance of \$18,922 after approval by the Special Assistant for Administration and the concurrence of the Governor. This payment was also made from EMO’s 1997 expense account for food items, and provided further proof that actual food expense totaled \$41,242 as shown on the vendor’s original billing.

EMO did not establish food service limitations that could have been the basis for negotiating arrangements with vendors prior to the operations. When the actual billing was presented, available funds were not sufficient to pay for the food service expenses.

New policies were not issued until September 23, 1996, when the Director of EMO issued a memorandum on procurement of supplies, goods and services under emergency conditions. The established amount per meal for Rota was \$9 for breakfast and \$12 for lunch and dinner. If the policies had been developed prior to the emergency operations, they could have provided a basis for the \$12 per meal used in the revised billing. However, the policies that were developed after the fact were apparently intended to justify the \$12 per meal cost.

According to the EMO Director’s memorandum dated February 6, 1997, EMO conducted a survey of the cost of meals for breakfast, lunch and dinner charged by restaurants in Rota and came up with an average cost per meal of \$9 for breakfast and \$12 for lunch and dinner.

Food Service Billing Paid

These conditions occurred because no policies and procedures had been developed and implemented by EMO for such circumstances. EMO was not able to manage and conduct a proper accounting of food services provided by the vendor. EMO

representatives acknowledged and signed the meal tickets used by the vendor to prepare his billings, and as a result, EMO later had to pay the vendor’s billing of \$41,242 without any assurance on the quantity and quality of food served and without any assurance that only authorized personnel were served. 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

	Vendor’s Original Billing	Negotiated Revision in Vendor’s Original Billing
Food Expenses Billings	\$41,242 ¹	\$22,320 ⁵
Less: Amount Paid	18,000 ²	18,000 ²
Additional Payment	4,320 ³	4,320 ³
Full Payment	18,922 ⁴	
Unpaid Amount of Food Expenses	\$ -	\$ -

Table 1

¹ Total billings from May 13 to June 17, 1996. Amount derived by adding up a total of 6 billings from vendor.
² Amount was paid in two installments. The first installment was for \$10,080 paid in October 1996 and the second installment was for \$7,920 paid in January 1997.
³ Additional payment made on April 2, 1997.
⁴ Full payment made on August 7, 1997.
⁵ Based on negotiated revision in vendor’s original billing at \$720/meal for the period May 7 to June 14, 1996 (\$720/meal x 31 meals = \$22,320).

paid an excessive cost of \$40.39 per meal. Table 1 summarizes estimated food service expenses from the vendor.

Conclusion and Recommendations

No policies and procedures have been developed and implemented for food service operations during emergencies. Food services may have been provided not only to authorized personnel but to unauthorized personnel as well. Without precautionary instructions from EMO officials, the vendor chose to serve more expensive types of food items to personnel who disregarded the buffet meals and ordered from an “open” menu. Consequently, EMO could not convincingly reject the vendor’s billing of \$41,242 but could ask only for a price reduction. Since EMO could not substantiate that there was an overbilling, the vendor’s claim for \$41,242 for serving more expensive type of food items was regarded as valid. It appears that EMO learned too late that it spent too much and that it did not have the funds to pay.

Accordingly, we recommend that the Director of EMO:

1. In coordination with the Director of Procurement and Supply, develop and implement written policies and procedures for procurement of goods and services under emergency conditions, including a requirement that EMO, jointly with the Division of Procurement and Supply, establish the standard rate for cost of meal per individual during emergency operations. These policies and procedures should be provided to vendors along with a list of personnel allowed to be served. Standard rates should be based on a survey of menus and all steps in establishing the rate should be documented.
2. Designate in writing a specific person to review and sign for food services during daily emergency operations.

EMO Response

In his letter response dated March 11, 1997 (Appendix A), the Director of EMO commented that Recommendation 1, suggesting there be policy for the procurement of supplies, goods and services under emergency conditions, should be addressed instead to the Director of Procurement and Supply. The Director of EMO believes that all procurement matters should be embodied in the CNMI Procurement Regulations, and that any change involving procurement of supplies, services and other goods under emergency conditions should be implemented in the Procurement Regulations for all types of scenarios.

OPA Comments

Based on the response we received from the Director of EMO, we consider Recommendations 1 and 2 open. The Director of EMO should reconsider implementing written policies and procedures for the procurement of goods and services under emergency conditions, for EMO's internal use, which should then be included in the handbook on Emergency Operations Planning. The Director's response did not contain information concerning Recommendation 2.

B. Other Matters

Emergency
Operations Plan
Needs to be
Amended

On September 23, 1996, the Director of EMO issued a memorandum setting forth policy for procurement of supplies, goods and services under emergency conditions. It enumerates specific policies for the procurement of meals, other supplies and services, and rentals and charters.

On January 1, 1997, EMO issued a handbook on Emergency Operations Planning. The handbook contains a plan of action to be taken in case of disaster-related emergencies to help ensure a smooth and speedy recovery operation. It also contains the requirements for personnel and equipment from various government agencies and the private sector. The handbook was created in compliance with Public Laws 1-40 and 1-44 and Executive Order 94-3, Reorganization Plan No. 2, and was intended to assist the CNMI in times of crisis. The handbook, however, does not include the policies for procurement of goods and services set forth in EMO's earlier memorandum.

Conclusion and Recommendation

The handbook on Emergency Operations Planning should be revised to include policies and procedures for procurement of goods and services.

Accordingly, we recommend that the Director of EMO

3. Amend the handbook on Emergency Operations Planning to include the previously issued policies and procedures for the procurement of goods and services under emergency conditions.

EMO Response

The response of the Director of EMO did not address the recommendation.

OPA Comments

We consider the recommendation open. The additional information needed to close the recommendation is presented in Appendix C.

No Financial
Plan Submitted
to the
Legislature

1 CMC §7403 of the Commonwealth Code provides that “Whenever the Governor uses his authority pursuant to Section 10 of Article III of the Constitution, the Governor shall as soon as practicable transmit to the Legislature a report describing in detail the emergency which required exercise of such authority, the measures being taken to deal with the emergency, and a financial plan for meeting the cost of these measures.” Our

investigation showed that the Governor did not submit a financial plan on the emergency to the Legislature. As a result, the Legislature was not made aware of the financial impact of the emergency.

Report on Emergency and Financial Plan

Our investigation showed that the Governor did not submit a plan on the emergency and financial requirements to the Legislature.

1 CMC §7403 of the Commonwealth Code provides, in part:

Whenever the Governor uses his authority pursuant to Section 10 of Article III of the Constitution, the Governor shall as soon as practicable transmit to the Legislature a report describing in detail the emergency which required exercise of such authority, the measures being taken to deal with the emergency, and a financial plan for meeting the cost of these measures. This plan shall indicate . . . any additional revenues which may be needed to ensure sufficient funds, and any additional information which the Governor deems appropriate. This plan shall also include, if a determination can be made at that time, the recommendations of the Governor for any necessary reprogramming, appropriations, or any other statutory changes which the Governor deems advisable to deal with the emergency or to adjust the fiscal position of the government subsequent to the emergency. If this determination cannot be made at that time, the recommendation shall be transmitted to the Legislature as soon as practical. (Emphasis added.)

We were told by the Governor's Legal Counsel that no plan is required for minor emergencies. However, we were unable to either find any document to verify this, or any criteria for determining what should or should not be reported. Since the law does not indicate that some emergencies need not be reported, we conclude that any and all must be reported.

Conclusion and Recommendation

Our investigation showed that the Emergency Management Office did not comply with laws concerning the planning and budgeting for emergency declarations. As a result, the Legislature was not made aware of the financial impact of the emergency thus preventing the Legislature from appropriating adequate funds for the emergency and imposing limitations on spending as appropriate.

Accordingly, we recommend that the Governor:

4. Require EMO to prepare a financial plan to meet the cost of each emergency operation, including food service costs. This financial plan should then be filed by the Governor with the Legislature as provided in 1 CMC §7403. The

handbook on Emergency Operations Planning should be revised to include the policies and procedures for procurement of goods and services.

Governor's Response

In his letter response dated March 25, 1997 (Appendix B), the Governor agreed with our recommendation that the procurement of food services during a declared State of Emergency should be more closely controlled and fiscally limited to the best extent possible. As to the matter of properly reporting the two declared states of emergency to the Legislature, the Governor provided us copies of the cover letters to the Senate President and Speaker of the House with attached Declarations in which the scope of the emergencies is fully discussed. He stated that given the limited duration and scope of the two emergencies, EMO anticipated paying its operational costs out of its own budget. He felt there was no need to seek additional appropriations or to have funds reprogrammed to handle the expenditures associated with these two declared emergencies.

In the Governor's letters to both the Senate President and the Speaker of the House, he stated that it was expected that the State of Emergency would be of short duration and that the Commonwealth Government's role was not expected to constitute a significant financial burden necessitating a financial plan pursuant to 1 CMC §7403.

OPA Comments

The Governor provided us with justification as to why he did not submit a financial plan on the two emergencies pursuant to 1 CMC §7403. EMO anticipated paying its operational costs out of its own budget so there was no need to seek additional appropriations or to have funds reprogrammed to handle the expenditures associated with the two declared emergencies.

Accordingly, the Governor properly communicated to the Senate President and the Speaker of the House that the State of Emergency was expected to be of short duration and was not expected to constitute a significant financial burden necessitating a financial plan. However, our investigation showed that all four payments (\$10,080 encumbered out of EMO's account in fiscal year 1996, \$7,920 paid out of Typhoon Yates and Verne's account in fiscal year 1997, \$4,320 and \$18,922 paid out of EMO's account in fiscal year 1997) resulted in budgetary deficits in the respective expense accounts.

We therefore amend our recommendation to include that the Governor should require EMO to prepare a financial plan under *all* circumstances, regardless of whether the operational costs of the emergency will be paid out of EMO's budget or whether reprogramming or additional appropriation of funds is needed. The Governor should also require EMO to submit a list of personnel that will be involved in the emergency operations. We, therefore, consider Recommendation 4 as open.

Note: Appendix A which contains the response from the Director of the Emergency Management Office has been omitted in this electronic version of the report. Please contact the Office of the Public Auditor to obtain a copy.

Appendix B
Page 1 of 5

Note: Appendix B which contains the response from the Governor of the Commonwealth of the Northern Mariana Islands has been omitted in this electronic version of the report. Please contact the Office of the Public Auditor to obtain a copy.

STATUS OF RECOMMENDATIONS

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
<p>1. Develop and implement written policies and procedures for procurement of goods and services under emergency</p>	<p>EMO</p>	<p>Open</p>	<p>In his response, the Director of EMO commented that Recommendation 1, suggesting there be policy on the procurement of supplies, goods and services under emergency conditions, should be addressed instead to the Director of Procurement and Supply. The Director of EMO believes that all procurement matters should be embodied in the CNMI Procurement Regulations, and that any change involving procurement of supplies, services and other goods under emergency conditions should be implemented in the Procurement Regulations for all types of scenarios.</p> <p>Further Action Needed</p> <p>The Director of EMO should reconsider implementing written policies and procedures for the procurement of goods and services under emergency conditions, for EMO's internal use. The Director of EMO should provide OPA a copy of the written policies and procedures.</p>
<p>2. Designate in writing a specific person to review and sign for food services during daily emergency operations.</p>	<p>EMO</p>	<p>Open</p>	<p>The response did not address the recommendation.</p> <p>Further Action Needed</p> <p>The Director of EMO should provide OPA a copy of the document designating a specific person to review and sign for food services.</p>
<p>3. Amend the Emergency Operations Plan to include policies and procedures for the procurement of goods and services under emergency conditions.</p>	<p>EMO</p>	<p>Open</p>	<p>The response did not address the recommendation.</p> <p>Further Action Needed</p> <p>The Director of EMO should reconsider the recommendation and provide OPA a copy of the amended Emergency Operation Plan.</p>
<p>4. Require EMO to prepare a financial plan under all circumstances and to submit a list of personnel that will be involved in the emergency operations.</p>	<p>EMO</p>	<p>Open</p>	<p>The response did not address the recommendation.</p> <p>Further Action Needed</p> <p>The Governor should respond to our amended recommendation.</p>