

EXECUTIVE SUMMARY

Audit of the Marianas Hawaii Liaison Office

Report No. AR-05-03, August 12, 2005

Summary

This report presents the results of the Office of the Public Auditor's (OPA) audit of the Marianas Hawaii Liaison Office (MHLO) for the period October 1, 1999 through December 31, 2002. OPA audited expenditures paid out of the Operations Imprest Fund maintained by MHLO and the Medical Referral Imprest Fund maintained by DPH in Honolulu. In addition, MHLO payroll expenditures paid by DOF were also audited.

The objectives of OPA's audit were to determine whether: (1) MHLO spending was within approved spending limits; (2) payments were processed and recorded in accordance with applicable laws and regulations; and (3) internal control procedures were adequate.

In its audit, OPA found instances of non-compliance with, and actions not specifically authorized by CNMI laws, regulations, and policies regarding personnel, travel, official representation, and the Medical Referral Program. More specifically:

- Personnel laws, regulations, and/or policies may have been violated when: (1) a former Liaison Officer¹ was granted double benefits of both Outside Commonwealth Service (OCS) differential and housing allowance when no specific authorization existed for the payment of OCS or the double benefit to an appointee or excepted service employee, (2) three MHLO employees hired in Hawaii were improperly granted housing benefits, and (3) two Medical Referral Assistant employees who failed to work their assigned number of hours were fully compensated.
- MHLO and DOF did not always consistently enforce CNMI travel laws, policies and procedures pertaining to after-the-fact travel authorization requests and related travel vouchers, outstanding travel advances from previous travels, 80 percent limit on travel advances, submission of trip reports, and initiation of payroll deduction for travelers who failed to submit travel vouchers and necessary documents within the required time period.
- MHLO failed to adequately document 27 out of 37 payable vouchers selected for testing in accordance with DOF Regulations for the Control of Public Funds.
- MRO did not require family/friend escorts to file travel vouchers for subsistence allowances received from MHLO as provided in the Medical Referral Program Rules and Regulations.

OPA also found both weaknesses in and lack of internal controls necessary to prevent irregularities in the use of funds and property. These weaknesses resulted in:

- Inconsistencies in the recording of advances and collections of funds for funeral services as well as long outstanding receivables of funeral service advances;
- Inconsistencies in the approval, use, and recording of check exchange transactions as well as outstanding check exchange balances;

¹ In accordance with the Auditing Act, 1 CMC § 7823(c), OPA does not disclose names of individuals in its report.

- Untimely and erroneous recording of bank reconciliation adjustments;
- Inaccurate property listings maintained by MHLO and DOF-P&S and MHLO property not tagged or labeled as CNMI government property;
- Inadequate timekeeping practices to properly monitor and document employees' daily time and attendance;
- Inconsistencies in the recording of long distance calls and no review procedures to ensure that only valid long distance charges are paid with public funds; and
- Inaccurate amounts and details on the replenishment vouchers and its supporting check registers.

OPA also has concerns regarding \$12,270 in official representation expenses incurred by MHLO. Of the \$12,270, payments totaling \$7,058 were incurred for hosting meals and gatherings and purchases of flower arrangements and fruit baskets. Aside from fiscal prudence concerns, these expenses do not appear to meet public purpose criteria as defined and regulated by the DOF Regulations for the Control of Public Funds. Our review of payments incurred under the Bento Program totaling \$5,212 also showed that medical referral escorts and/or patients were, in effect, receiving a double benefit for the one day provision of food provided upon arrival in Hawaii under the Bento Program since the escorts and/or patients were also granted a subsistence allowance for the same day.

Lastly, OPA found that the CNMI Government could have saved \$77,157 in rental costs for medical referral patients and escorts at the Pagoda Hotel in Honolulu if a more timely analysis had been performed by MHLO to determine the appropriate number of hotel rooms needed to serve CNMI medical referral patients. MHLO negotiated a contract renewal on November 27, 2001, effective October 5, 2001, requiring the Pagoda Hotel to block 20 rooms for medical referral patients and later renegotiated the contract revising it to 15 rooms effective June 5, 2002. Based on OPA's analysis, occupancy at the Pagoda Hotel averaged less than 15 rooms during the 8 months between entering into the contract, in November 2001, and the renegotiation, in April 2002. If MHLO had entered into a contract for 15 rooms at the time of the contract renewal, the CNMI government would have saved \$77,157 in rental costs.

Recommendations and Response

OPA made 20 recommendations in its report: 10 of which are addressed to the Marianas Hawaii Liaison Office; 7 to the Department of Finance; 1 to the Attorney General's Office; 1 to the Department of Public Health, and 1 to the Office of Personnel Management.

Based on the responses received from AGO, MHLO, DOF, OPM and DPH, OPA considers recommendations 1, 4, 5, 7, 9, 15 and 20 as open, recommendations 3, 11, 13, 14, 16, 17, 18 and 19 as resolved, and recommendations 2, 6, 8, 10 and 12 as closed.



A copy of the entire report is available at the Office of the Public Auditor, or through OPA's Website

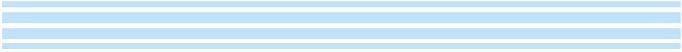
Michael S. Sablan, CPA
Public Auditor
Commonwealth of the Northern Mariana Islands
Web Site: www.opacnmi.com

P.O. Box 501399
Saipan, MP 96950
Tel. No. (670) 322-6481
Fax No. (670) 322-7812



Office of the Public Auditor
Commonwealth of the Northern Mariana Islands

Audit of the Marianas Hawaii Liaison Office
October 1, 1999 through December 31, 2002



Report No.
AR-05-03



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

World Wide Web Site: <http://opacnmi.com>

1236 Yap Drive

Capitol Hill, Saipan, MP 96950

Mailing Address:
P.O. Box 501399
Saipan, MP 96950

E-mail Address:
mail@opacnmi.com

Phone: (670) 322-6481
Fax: (670) 322-7812

August 12, 2005

Ms. Jeannette D. Sablan
Liaison Officer
Marianas Hawaii Liaison Office
1221 Kapiolani Boulevard, Suite 820
Honolulu, Hawaii 96814

Dear Ms. Sablan:

Subject: Audit of the Marianas Hawaii Liaison Office, October 1, 1999 through December 31, 2002

This report presents the results of the Office of the Public Auditor's (OPA) audit of the Marianas Hawaii Liaison Office (MHLO)¹ for the period October 1, 1999 through December 31, 2002. OPA's objectives for the review of various expenditures paid out of the Operations Imprest Fund and payroll related expenditures paid by the Department of Finance (DOF) were: (1) to determine whether spending was within approved spending limits, (2) to determine whether payments were processed and recorded in accordance with applicable laws and regulations, and (3) to determine whether internal control procedures were adequate. For the review of selected expenditures paid out of the Medical Referral Imprest Fund, OPA's objectives were: (1) to determine whether internal controls were adequate under operating procedures, and (2) to determine whether payments for selected expenditures were processed and recorded in accordance with applicable laws and regulations.

OPA found instances of non-compliance with, and actions not specifically authorized by CNMI laws, regulations, and policies regarding personnel, travel, official representation, and the Medical Referral Program. Further, internal controls over administration of expenditures, property, employee time and attendance, and monitoring of long distance calls had not been established or were inadequate. OPA also had concerns over MHLO's payments of \$12,470 in official representation expenses. Lastly, OPA found that the CNMI Government could have saved \$77,157 in rental costs for medical referral patients and escorts at the Pagoda Hotel in Honolulu if a more timely analysis had been performed by MHLO to determine the appropriate number of hotel rooms needed to serve CNMI medical referral patients.

¹ Public Law 3-92 repealed Public Laws 1-1 and 1-38 and established, among other things, the "Marianas Hawaii Office". As the "Marianas Hawaii Office" is more commonly known as the "Marianas Hawaii Liaison Office", OPA uses the term "Marianas Hawaii Liaison Office" or "MHLO" in this report. See 1 CMC § 2091.

BACKGROUND

The former Liaison Officer for the MHLO, by letter dated March 5, 2002, requested OPA to audit MHLO's two Imprest Fund accounts, which are the Operations Imprest Fund and the Medical Referral Imprest Fund. The former Liaison Officer also expressed concern as to whether the official representation account should be used to continue the Bento Program² for CNMI Medical Referral patients.

Marianas Hawaii Liaison Office

Public Law 1-38 created the MHLO, then called the "Marianas/Hawaii Liaison Office", within the Office of the Representative to the United States. Public Law 3-92 repealed Public Laws 1-1 and 1-38, and established, among other things, the "Marianas Hawaii Office" to be located in Honolulu, Hawaii, which in effect transferred the MHLO from the Office of the Representative to the United States to the Office of the Governor. The portions of Public Law 3-92 relevant to the MHLO are codified at 1 CMC §§ 2091 - 2094. The MHLO is headed by a Liaison Officer appointed by, and under the direct supervision and control of, the Governor. The Liaison Officer is charged with assisting "the Governor in faithfully executing the laws of the Commonwealth, including those laws, regulations, and policies regarding off-island medical referrals, student assistance, and other matters."

Imprest Funds

On October 1, 1990, DOF issued the Finance Policy and Procedures Manual No. 91-1 (the Manual) relating to Imprest Funds. The Manual provides that MHLO will have two Imprest Funds for financial transactions in Hawaii: (1) an Operations Imprest Fund for payment of authorized MHLO expenditures; and, (2) a Medical Referral Imprest Fund for payment of authorized medical referral activities.

MHLO maintains a checking account for each Imprest Fund with authorized cash levels of \$30,000 for Operations and \$50,000 for Medical Referral. The process for replenishing the accounts is set forth in the DOF Imprest Fund Manual, and requires submission of a replenishment voucher and supporting documentation to DOF. DOF-Accounts Payable (AP) reviews and approves the replenishment vouchers and records the MHLO Operations and Medical Referral transactions in the DOF financial management system based upon the replenishment vouchers and supporting documents submitted. DOF-Treasury processes the interbank wire transfer from the CNMI General Fund bank account to the appropriate MHLO Imprest Fund bank. In the case of the MHLO, the replenishment vouchers are submitted with the supporting check register and the wire transfer replenishing the appropriate account is made based upon that submission. Subsequently, the MHLO submits the documentation to support the expenditures set forth on the voucher and in the check register. DOF-AP records the transactions based upon the

² The Bento Program provided a one day supply of food to patients and/or escorts who arrive in Honolulu in the evening or otherwise had no time to purchase needed provisions due to the medical emergency. This program started in November 1999 and was discontinued in April 2002.

supporting documentation received from MHLO and DOF makes adjustments to future replenishments if errors substantiating a replenishment are discovered.

Up until June 2000, DOF-AP posted all transactions for both MHLO Imprest Fund accounts into the DOF financial management system. In July 2000, MHLO was provided authorization and access to post all payment transactions for its Operations and Medical Referral Imprest Fund accounts to the DOF financial management system.

DOF-Payroll on Saipan processes MHLO payroll. Salaries of employees assigned to Hawaii are paid out of MHLO Operations and Medical Referral allotments retained in the CNMI General Fund bank account on Saipan. Actual payments are done through direct deposits to employees' bank accounts.

Responsibilities of the MHLO Under the Medical Referral Program

The MHLO works with the Medical Referral Office (MRO) in Saipan to assist patients referred to facilities in Hawaii. MHLO provides (a) coordination with health care facilities, (b) ground transportation within Hawaii, (c) disbursement of subsistence allowance, and (d) arrangement of hotel accommodations.

In the past, MHLO provided a Bento Program to patients and/or escorts. Established in November 1999, the Bento Program provided a one day supply of food to patients and/or escorts who arrived in Honolulu in the evening or had no time to purchase needed provisions because of the medical emergency. Recipients needed to show their travel authorization and medical advisory, and to sign a Bento Program check list. Purchases for the program were paid out of the Operations Imprest Fund and recorded as official representation expense. MHLO cancelled the program effective April 11, 2002. Similar needs of patients and/or escorts are currently covered by the \$20 daily subsistence allowance.

OBJECTIVES, SCOPE AND METHODOLOGY

OPA reviewed various expenditures paid in Honolulu out of the Operations Imprest Fund and payroll related expenditures paid out of DOF. The audit objectives were: (1) to determine whether spending was within authorized spending levels, (2) to determine whether payments were processed and recorded in accordance with applicable laws and regulations, and (3) to determine whether existing internal control procedures were adequate.

OPA also conducted a limited review of the Medical Referral Imprest Fund account. OPA's objectives were: (1) to determine whether existing internal controls were adequate under current operating procedures, and (2) to determine whether payments for selected expenditures were processed and recorded in accordance with applicable laws and regulations.

OPA reviewed the MHLO Operations and Medical Referral Imprest Fund accounts for Fiscal Years (FY) 2000, 2001, 2002 and the first quarter of 2003. For FY 2002, OPA selected two major expenditure accounts, payroll and official representation, to test for compliance with laws and

regulations. OPA also reviewed monthly replenishment vouchers and supporting check registers for FY 2002 and FY 2003 to determine the propriety of other payments made from the Imprest Fund accounts. OPA conducted its audit at the MHLO office in Hawaii as well as at the MRO and DOF offices, between April 2002 and February 2004.

To accomplish the objectives, the following procedures were performed: (1) OPA interviewed knowledgeable officials and employees at DOF, MRO, and MHLO to obtain information about MHLO operations, medical referral activities and the nature of payments made from the Imprest Fund accounts; (2) OPA evaluated MHLO internal controls over property management, time and attendance procedures, administration of travel advances, and payment of other expenditures; (3) OPA examined financial reports and reviewed the bank reconciliation process of Imprest Fund account balances between records of DOF, MHLO, and the depository banks; (4) OPA then tested compliance with applicable provisions of laws and regulations and conducted other analytical procedures on selected expenditure accounts; and (5) OPA examined DOF bank reconciliation reports to ascertain the completeness and accuracy of the process and the timeliness and propriety of recording adjusting journal entries.

This audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States. In accordance with the Auditing Act, 1 CMC § 7823 (c), OPA does not disclose names of individuals in its report.

PRIOR AUDIT COVERAGE

On May 6, 1992, OPA reported on MHLO's noncompliance with applicable laws, rules and regulations and on internal control weaknesses. On February 27, 1997, OPA reported on MHLO expenditures for the period July 1, 1990 to January 9, 1994 (AR-97-01), disclosing that MHLO violated procurement laws and regulations by not following required competitive sealed bidding procedures. OPA also reported that both MHLO and DOF did not comply with travel policies for collection of long outstanding travel advances, did not establish procedures for monitoring and controlling individual accounts receivable, and did not resolve and adjust bank reconciling items. Subsequently, MHLO took corrective actions to implement OPA's recommendations.

DISCUSSION OF FINDINGS

Spending Within the Budget Limits

OPA found that MHLO's spending levels in FYs 2000 and 2001 were within budget limits. The limits were established by annual appropriation acts; spending in excess of appropriations is prohibited pursuant to 1 CMC § 7701(a) of the CNMI Planning and Budgeting Act. OPA's analysis comparing MHLO's approved spending limits with actual MHLO expenditures showed that MHLO had surplus funds of \$97,207 and \$68,684 in FYs 2000 and 2001, respectively.

| | Approved Spending Limits | Actual Expenditures | Excess (Deficit) |
|------------------------------|-----------------------------|------------------------|---------------------|
| <u>Fiscal Year 2000</u> | | | |
| Total Personnel Expenditures | \$403,001 | \$338,694 | \$64,307 |
| Total All Other Expenditures | 143,942 | 111,042 | 32,900 |
| TOTAL | \$546,943 | \$449,736 | \$97,207 |
| <u>Fiscal Year 2001</u> | | | |
| Total Personnel Expenditures | \$404,374 | \$369,246 | \$35,128 |
| Total All Other Expenditures | 127,630 | 94,074 | 33,556 |
| TOTAL | \$532,004 | \$463,320 | \$68,684 |

Table 1: Approved Spending Limits vs. Actual Expenditures for Operations Account

Compliance with CNMI Laws, Regulations, and Policies

OPA’s review showed instances of non-compliance with, and actions not specifically authorized by CNMI laws, regulations, and policies regarding personnel, travel, official representation, and the Medical Referral Program. Those instances are presented as follows:

A. Personnel Benefits and Compensation Contrary to or Not Authorized by Regulations

Personnel laws, regulations, and/or policies may have been violated when: (1) a former Liaison Officer was granted double benefits of both Outside Commonwealth Service (OCS) differential and housing allowance when no specific authorization existed for the payment of OCS or the double benefit to an appointee or excepted service employee, (2) three MHLO employees hired in Hawaii were improperly granted housing benefits, and (3) two Medical Referral Assistant (MRA) employees who failed to work their assigned number of hours were fully compensated.

1. Duplication of Payment for Personnel Benefits

A former Liaison Officer received both OCS differential and housing allowance for 46 months, as the benefits were authorized by a former Director of Personnel. Section IV.B21(E) of the CNMI Personnel Service System Rules and Regulations (PSSRR) specifically provides for payment of a 50 percent of base salary differential for “Outside Commonwealth Service” for employees assigned a permanent change of duty station to work at locations outside of the Commonwealth, but specifically prohibits payment of the OCS differential if the employee is receiving housing benefits. No specific authorization exists for the payment of OCS or the double benefit to an appointee or excepted service employee. As a result, the duplication of benefit resulted in double benefit in the amount of \$51,295. Moreover, an additional \$39,175 could have been saved if only the housing allowance was paid rather than the 50 percent OCS differential.

| Prior to FY 2000 | FY2000 & FY2001 | FY2002 | Total |
|---------------------|--------------------|--------|-------|
|---------------------|--------------------|--------|-------|

| | | | | |
|-------------------------------|--------|--------|--------|-----------|
| OCS Differential | 34,061 | 43,200 | 13,209 | \$90,470 |
| Housing Allowance | 30,495 | 19,200 | 1,600 | \$51,295 |
| Total Personnel Benefits Paid | | | | \$141,765 |

Table 3: OCS Differential and Housing Allowance Paid to a Former Liaison Officer

A former Liaison Officer received \$51,295 as housing allowance in addition to the \$90,470 OCS differential during his time in office, which began at his appointment on February 2, 1998, and ceased when he retired on November 30, 2001. OPA’s review of the employment records showed that the Director of Personnel at the time authorized both OCS differential and housing allowance for FYs 1999, 2000, 2001, and 2002. OPA was unable to review the former Liaison Officer’s initial employment contract, for the period prior to February 2, 1999, as it was not in either the Office of Personnel Management’s (OPM’s) or MHLO’s files. Based on OPA’s review, the former Liaison Officer did receive both OCS differential and housing allowance from February 2, 1998 to February 2, 1999. A review of the Request for Personnel Action (RFPA), with proposed effective date of February 2, 1999, showed “Housing Allowance not Authorized”, however, the word “not” was marked out in pen and handwritten words were added to authorize housing allowance through July 1999. OPA later verified that the handwritten changes were made by the Director of Personnel to authorize the housing allowance through July 1999. Attached to the RFPA was a letter to the Acting Governor from the then Special Assistant for Administration, dated September 10, 1999, stating that he signed the request authorizing housing allowance to the former Liaison Officer based on the Director of Personnel’s assertion that the Governor and OPM have the discretion to approve both the OCS differential and housing allowance. A Notice of Personnel Action (NOPA) was subsequently issued to authorize continuation of the housing allowance, effective August 1, 1999, and the same conditions were applied through the end of the former Liaison Officer’s time in office.

OPA will refer this matter to the Attorney General’s Office (AGO) for legal determination and action as it deems appropriate.

2. Housing Benefits Improperly Granted to Three MHLO Employees Hired in Hawaii

MHLO and/or the Department of Public Health (DPH) hired three employees who were residing in Hawaii but were granted housing allowances in FYs 2000 and 2001. This was contrary to CNMI government policy of granting housing allowance only to expatriated employees. This occurred because the contracting officials disregarded CNMI policy and the former Governor’s instructions. Consequently, over \$54,000 was improperly paid to the employees.

Section 5(E) of the “Conditions of Employment” attached to a CNMI Excepted Service Employment Contract for outside of CNMI hire provides that “housing benefits apply only to excepted service employees whose point of recruitment is outside the Commonwealth of the Northern Mariana Islands, unless the Governor directs otherwise and housing is provided for in the special terms section of this contract.” Conversely, if a government office exists outside of the Commonwealth, the practice would support housing allowances being provided to employees that are expatriated from within the Commonwealth to work at the office, but not to those residing in the location of the office (Hawaii, Guam, or Washington D.C.) when hired.

In a memorandum dated September 22, 1998, the then Governor directed the Liaison Officer to grant housing benefits to only employees hired from the Commonwealth and expatriated to work in the Hawaii office. The Governor stated that he was unable to find statutory or regulatory authority for payment of housing allowance to employees who are hired in Hawaii to work in the liaison offices. The Governor further stated in the memorandum that providing housing allowance to those hired in Hawaii runs counter to CNMI practice of not providing housing or housing allowances to employees hired locally within the CNMI, whether Civil Service or Excepted Service. The memorandum directed that immediate steps be taken to invoke the sixty (60) day early termination clause in the contracts. The memorandum, however, authorized the immediate rehiring of the employees, without competition if the Liaison Officer so recommended, under new contracts, with the standard housing allowance for those employees hired from within the Commonwealth.

The contracting officials disregarded CNMI policy when they authorized housing allowances to three MHLO employees hired in Hawaii. The former Liaison Officer further disregarded the Governor’s order to discontinue and correct the unauthorized payments as set forth in the September 1998 memorandum, despite the Governor’s clear statement that the housing allowances did not meet the tests of necessity or legality. Also, OPM did not perform adequate verification procedures to determine the actual point of recruitment. The contracting officials (former Liaison Officer and former Secretary of Public Health) appear to have allowed Saipan to be indicated as the point of recruitment in the “Conditions of Employment” for employees that were not hired in Saipan. Indicating that the employees’ point of recruitment was Saipan when it was not was a misrepresentation that resulted in payment of the housing allowance to employees that were not entitled to receive it. Although the “Conditions of Employment” were signed by the employee that subsequently received the housing allowance and the former Director of Personnel, OPA was not able to determine who prepared each of the contracts that contained the erroneous information. The NOPA reflecting the termination actions, and information provided by other MHLO personnel, indicated that the three employees actually resided in Hawaii, not Saipan, and therefore were not entitled to the housing allowance. The termination of the improper entitlement of housing allowance was implemented over a period of 18 to 29 months after the Governor’s September 1998 memorandum.

| Position | Fund Account Charged | Improper Payments | | | Housing Benefits Granted | |
|---|-----------------------|---------------------|-------------------|----------|--------------------------|-----------------------|
| | | Previous to FY 2000 | FY 2000 & FY 2001 | Total | From | To |
| Admin. Assistant | 1979-Medical Referral | \$13,600 | \$9,600 | \$23,200 | 07/28/98 | 10/01/00 |
| Med. Referral Assistant | 1979-Medical Referral | 17,600 | 4,800 | 22,400 | 04/17/98 | 03/31/00 ³ |
| Med. Referral Assistant | 1041-MHLO Operations | - | 9,045 | 9,045 | 11/16/99 | 03/01/01 |
| Total Improper Payments of Housing Allowances | | \$31,200 | \$23,445 | \$54,645 | | |

Table 4: Housing Allowances Improperly Paid to Three MHLO Employees

Consequently, housing allowances totaling \$54,645 were improperly paid to the three MHLO employees. The amount may have been higher, but OPA’s review did not include other employees who were receiving housing allowance prior to FY 2000.

³ The housing allowance benefit was discontinued based on a new employment contract and notice of personnel action effective 2/23/00; however, the employee was still paid a housing allowance of \$800 up to March 2000.

3. Employees Who Failed to Work Assigned Hours Were Fully Compensated

Two of seven MRAs were fully compensated despite not completing required hours. Such was contrary to Section I.8(P) of the Excepted Service Personnel Regulations (ESPR) which provide that at the end of each pay period, tardiness shall be charged to Leave Without Pay (LWOP). The timekeeper failed to follow the regulations and supervisory review was inadequate to ensure compliance. Unreported absences totaled just over ten hours during the three pay periods reviewed.

The timekeeper failed to record leave charges for tardiness of two MRA employees. During two pay periods, the first employee was reporting late or leaving early, ranging from 15 to 55 minutes for a total unreported leave of 8 hours 45 minutes, while the second employee was late three times for a total of 1 hour 30 minutes. Despite only a ten hour discrepancy, stricter compliance and adherence to internal controls are expected, particularly for an office the size of the MHLO.

The ESPR specifies that any time off that reduces a work day to less than eight hours should be charged to a specific type of leave. Section I.8(P) of the ESPR provides that at the end of each pay period, tardiness shall be charged to LWOP. The timekeeper shall determine the total number of minutes the employee has been late, and charge LWOP or appropriate leave to the hourly amount nearest the total minutes an employee is tardy. A memorandum addressed to all department and activity heads from the Director of Personnel dated May 30, 1995, also stated that habitual tardiness is an offense for which employees may be penalized or reprimanded.

Compliance with the ESPR should be strictly enforced and OPA expects the Liaison Officer to enforce compliance. To ensure accuracy, the Liaison Officer or a staff member, other than the one who prepared the Summary Time Sheet, should compare the posted time charges with the supporting timecards, leave forms, overtime authorization forms, and other timekeeping records.

B. Non-Compliance with CNMI Travel Laws, Policies, and Procedures

MHLO and DOF did not always comply with or consistently enforce CNMI travel laws, policies, and procedures. As a result, travel advances remained outstanding for long periods of time. Also, because of the delay in the liquidation of travel advances, travel expenses were not recorded in the proper period, which resulted in travel expenditures being understated in FYs 2000 and 2001. Finally, without detailed trip reports, MHLO had no assurance that travel performed was in the best interest of the CNMI government and could not verify whether the authorized purpose of the travel was achieved.

CNMI travel policies and procedures provide that a Travel Authorization (TA) must be requested, approved, and certified for fund availability prior to the beginning of travel. Also, travel advances are limited to 80 percent of the total estimated per diem and other expenses as set forth on the TA. Furthermore, procedures for official travel provide that for after-the-fact TA requests, the requests must be submitted, with justification, to the Governor for review and approval.

The Planning and Budgeting Act provides in 1 CMC § 7407(b) that “*within 15 days after completion of government travel, the traveler shall submit a detailed trip report and documented travel expenditures to the approving authority A person who has failed to make a timely submission shall not receive a travel advance until his [or her] travel submission is remedied.*” (Emphasis added.)

Procedures for official travel also state that DOF shall initiate payroll deductions for travelers who fail to file a Travel Voucher (TV) with required information and supporting documents within 10 days after the 15 days grace period.

OPA’s review of six (6) TAs issued in FYs 2000 and 2001 totaling \$16,398 showed that MHLO and DOF did not always comply with CNMI travel laws, policies, and procedures. More specifically:

- A TA request and related TV was submitted more than a year after the conclusion of travel,
- Travel advances for three TAs were made without requiring the travelers to liquidate previous advances,
- Travelers for five TAs were advanced 100 percent of the total estimated per diem and other expenses instead of 80 percent as allowed by the CNMI travel policy,
- Trip reports were not filed with TVs for two TAs, and
- Payroll deduction was not promptly initiated for three TAs and had not been initiated for two TAs when travelers failed to submit TVs and necessary documents within the required time period.

Subsequent Events

OPA was subsequently informed that MHLO had implemented the 80 percent allowance for advances on estimated travel costs for per diem and other expenses beginning September 2003. OPA appreciates MHLO’s initiative in complying with the CNMI travel policy on this matter.

C. Inadequate Documentation of Official Representation Expenses

OPA’s review of 37 vouchers showed that in 27 instances MHLO failed to adequately document the transactions in accordance with DOF Regulations for the Control of Public Funds. This occurred because DOF, the agency responsible for controlling and regulating the expenditure of public funds, did not enforce compliance with its regulations. As a result, OPA had no assurance that \$10,448 in official representation expenses were incurred for public purposes.

Article X, Section 8 of the CNMI Constitution provides that: “The Department of Finance or its successor department shall control and regulate the expenditure of public funds. The department shall promulgate regulations including accounting procedures that require public officials to provide full and reasonable documentation that public funds are expended for public purposes.” Accordingly, on September 20, 2000, DOF adopted Regulations for the Control of

Public Funds. More specifically, Section 1100.4 (A) of the DOF Regulations for the Control of Public Funds provides that:

Official Representation and Official Justification for entertainment and promotional expenses and other governmental business must be completely documented and must, at a minimum include (1) the name and position of persons entertained, (2) nature and purpose of the expense and its direct relationship to CNMI Government business, (3) description of matters discussed, and (4) original receipts and supporting documents.

OPA's review of \$10,448 in charges to official representation expense in FYs 2000 to 2002 showed that MHLO failed to adequately document 27 out of 37 vouchers selected. OPA found that:

- vouchers totaling \$9,504 did not disclose the names of the persons entertained,
- vouchers totaling \$4,402 did not provide the purpose for the official representation expense, and
- vouchers totaling \$3,715 did not provide the description of matters discussed during the official representation meetings.

D. Non-Compliance with Medical Referral Program Rules and Regulations

OPA found that family/friend escorts were not filing TVs for subsistence allowances received from MHLO as required by regulation because MRO personnel believed that the regulation was repealed by a memorandum exempting escorts from filing TVs. As a result, the Medical Referral Program Rules and Regulations (MRPRR) were not complied with and there was no assurance that subsistence allowances paid were properly used.

Section 5.5 of the MRPRR provide that an authorized family or friend escort must file a TV and other prescribed documentation with the MRO within 10 days of returning to the CNMI from the medical treatment. MRO must then forward these documents to the DOF-Accounting and Travel Section. If the escort fails to comply, the CNMI government reserves the right to seek reimbursement from the escort for costs incurred.

The MRO Administrator told OPA that MRO has not been enforcing the MRPRR provision since DOF issued a memorandum exempting medical referral family/friend escorts from filing TVs. The MRO Administrator did not provide OPA a copy of the memorandum. DOF-Travel personnel interviewed had no knowledge of such exemption and was unable to locate a copy of any such memorandum. Although OPA was not able to review a copy of the memorandum, as it was not produced, absent amendment to the relevant section of the MRPRR, escorts are required to file TVs with the MRO. The MRPRR provides for penalties for any person found by DPH to have violated the regulations.

OPA also found that out patients receiving subsistence allowances were not required by the MRO to file TVs upon their return to the CNMI from the medical treatment and the MRPRR did not appear to include such a requirement. MHLO payments for subsistence allowances for patients and family/friend escorts totaled \$248,625 and \$280,117 in FYs 2000 and 2001, respectively.

Weaknesses in Internal Controls

OPA found both weaknesses in and lack of internal controls necessary to prevent irregularities in the use of funds and property. More specifically, MHLO failed to establish and adopt written policies and procedures pertaining to the following: documentation and reporting of property acquisitions and disposals; proper monitoring and documentation of employees' time and attendance; monitoring and documentation of long distance calls; and review procedures to ensure accurate preparation of replenishment vouchers and supporting check registers.

Furthermore, DOF and MHLO have not established written guidelines and procedures to ensure proper authorization, recording, and monitoring of advances for funeral services. The only existing guideline is that the advances for funeral services be recovered within one year. There is also a need for: written policies and procedures for check exchange transactions; and, written guidelines to ensure that Imprest Fund cash transactions are properly authorized, reviewed, recorded, and reconciled with DOF and bank records.

A. Inconsistent Recording and Long Outstanding Receivables of Funeral Service Advances

There is no assurance that the total advances for funeral services will be fully collected as DOF does not maintain a subsidiary ledger for receivables related to funeral service advances. In addition, OPA found inconsistency in the recording and tracking of funeral service advances as adequate management and review procedures have not been implemented. Therefore, the uncollected advances represent government funds that remain unavailable and may never be available for other government needs. There is also no assurance that the current book balances of affected DOF accounts are accurate.

On February 10, 1998, the then Secretary of Public Health issued a memorandum stating that “[i]n the unexpected demise of medical referral patients, the CNMI Government shall be obligated to pay the cost of shipping and embalming of the human remains [to the Northern Mariana Islands only].” Thus, mortuary and funeral service charges such as the cost of casket, burial garments, and transportation from the hospital to the mortuary are not covered by medical referral funds. OPA found cases where MHLO paid the full amount of mortuary and funeral expenses including charges not covered by MRPRR. However, prior to advancing the payments, MHLO would obtain a signed promissory note from a relative of the Medical Referral patient obligating the promisor to reimburse the CNMI Government for the additional charges. Upon receipt of the promissory note and a copy of the invoice from MHLO, DOF bills the promisor. The promissory note also provides for the CNMI Government to garnish any tax refund that the promisor may receive from the DOF-Division of Revenue and Taxation.

As of September 30, 2002, the recorded receivables related to funeral service advances was \$88,551. Of this amount, \$51,851 was the total recorded prior and up to September 30, 1998, and \$36,700 was the total recorded from October 1, 1998 to September 30, 2002. Only \$10,500 (12%) of the \$88,551 had been collected as of September 30, 2003.

OPA's review also showed that DOF and MHLO were inconsistent in recording the advances and the collections of funds for funeral services. Advances and collections that were supposed to be

recorded as Accounts Receivable-Funeral Services (Account #12150 or 12151) were sometimes recorded as Professional Services expense (Account #62060). Furthermore, collections received at the Commonwealth Health Center (CHC) for repayment of advances for funeral services were sometimes credited to Accounts Receivable-Medical Referral Patients (#12350), CHC-Hospital Services revenue account (1863-44530), Medical Referral-Travel expense account (1972-62500), or Medical Referral-Other expense account (1972-62600).

OPA also found that it took as long as 21 months after the promissory notes were signed before the promisors were billed. Also, MHLO paid \$11,948 for funeral service charges in FY 2001 for two deceased patients, which were all charged to Professional Services expense account, although \$7,122 of the total was computed as the portion reimbursable to the government. Thus, \$7,122 should have been recorded as receivables and billed to the responsible promisors.

These discrepancies occurred because of the absence of written guidelines and procedures that identify the specific MHLO, MRO and DOF personnel responsible for ensuring that advances for funeral services and related collections are properly recorded and monitored. DOF, which maintains the records, failed to collect the amounts advanced within one year as agreed to in the promissory notes and then failed to do follow up on collections thereafter.

B. Lack of Policies to Control and Monitor Check Exchange Transactions

Prudent management dictates that MHLO adopt written policies governing cash so that policies can be consistently implemented and monitored for compliance. DOF policy provides for a “check exchange” service so that CNMI residents can obtain cash while outside the CNMI. DOF debits a “check exchange” account for the amount of the Imprest Fund check, and then credits the account for the amount deposited or paid by the CNMI resident.

DOF personnel advised OPA that the check exchange process can be used when:

- Medical Referral patients, escorts, and other CNMI residents in Honolulu exchange their CNMI government payroll, rebate, or retirement check with a MHLO Imprest Fund check; or authorize DOF to deposit their CNMI payroll, rebate, or retirement checks at the DOF-Treasury office and request a check issued out of the MHLO Imprest Fund account.
- A CNMI resident in Saipan deposits cash at the DOF-Treasury office and requests a check exchange issued out of the MHLO Imprest Fund to his/her relatives in Honolulu.
- MHLO employees do not receive their payroll checks on time.

According to DOF personnel, all check exchange services provided to CNMI residents require DOF-Treasury’s prior approval, and similar services provided to MHLO employees require DOF-Payroll’s prior approval. For check exchanges involving payroll transactions, the net pay would be charged to the check exchange account rather than to payroll expense. Once the regular pay check is ready for release, DOF-Payroll or Treasury office sends the computerized pay check to MHLO for endorsement by the employee and deposit into the Imprest Fund account to offset

the earlier debit for the advanced net pay. If an employee who received a net pay advance through check exchange is collecting his/her net pay via direct deposit to the employee's designated bank account, then MHLO should properly monitor the check exchange transaction to ensure that the employee repays the MHLO Imprest Fund account for the net pay that was advanced. OPA was also informed that MHLO can issue a check exchange prior to DOF approval under emergency situations.

Neither MHLO nor DOF has adopted written policies and procedures over check exchange transactions. Consequently, OPA had no basis for verifying compliance or non-compliance with check exchange procedures. Furthermore, OPA's review showed inconsistencies in the approval, use, and recording of check exchange transactions as noted below.

Although DOF-Treasury and DOF-Payroll are required to pre-approve check exchange transactions, 31 of the 89 check exchange transactions we reviewed were not pre-approved. While 23 of these 31 were approved after issuance of the checks, OPA was unable to determine whether these were emergency situations that qualify as "exceptions" to pre-approval. OPA did not find approval in the remaining eight (8) instances.

OPA found that the DOF had not posted transactions, *i.e.* corresponding payments and deposits to the check exchange account on a timely basis. Although DOF identified the errors during its monthly bank reconciliation process, there were no correcting entries made until the end of the fiscal year. In addition, most year-end adjustments were debited and credited to "Other Services and Charges" expense account. Thus, the check exchange account carries balances that need to be written off, however, it will be extremely difficult to determine which specific check exchange transactions are still outstanding.

On specific transactions, OPA found check exchange transactions of \$2,826 involving payroll payments that remains outstanding in the check exchange receivable account. Of that amount, OPA believes that based on analyses conducted, \$2,021 should be written off. Although the check exchanges were complete, OPA was unable to trace when the payroll expense was charged and offset against the recorded pay advance. OPA also determined that \$805 remains outstanding because an employee collected payroll (for one pay period) twice, through a salary advance and a direct deposit to his/her bank account, but did not repay the MHLO Imprest Fund account. Furthermore, OPA noted that, on one occasion, an advanced payroll payment remained outstanding until it was recovered through a payroll deduction when the employee's employment contract expired.

These amounts remained outstanding because DOF officials allowed the check exchange practice to continue without written policies governing check exchange transactions. As a result, the risk exists that check exchange transactions are not properly monitored, therefore, cash advances are not being accounted for and collected.

C. *Untimely and Erroneous Recording of Bank Reconciliation Adjustments*

Preparation of accurate and reliable financial reports depends on the timely recording of all financial transactions. As such, DOF performs monthly bank reconciliations to reconcile the cash

balances per DOF accounting records with the balances on bank statements. These monthly bank reconciliations often result in the need for recording adjustments in DOF accounting records.

OPA's review showed that adjusting entries for monthly bank reconciliations were not recorded until the end of the fiscal year. Also, bank reconciliation items to correct expenditure accounts were only recorded to a single expense account, "Other Services and Charges," as DOF personnel were unable to determine the proper accounts to be adjusted.

Furthermore, OPA's review showed that bank reconciliation adjustments were erroneously recorded such that:

- bank reconciling items to correct expenditure accounts of Medical Referral were erroneously recorded to an Operations expenditure account;
- a bank reconciling item for the Medical Referral account was erroneously recorded to an Operations expenditure account but should have been recorded to an accounts receivable account;
- bank reconciling items for Operations expenditure account which should have been recorded to Medical Referral expenditure accounts and an accounts receivable account;
- bank reconciling items to correct an Operations expenditure account were erroneously recorded to an accounts receivable account;
- disbursements already recorded were posted again, resulting in a double recording of expenditures; and,
- adjustments for unposted disbursements were understated.

These untimely and erroneous recording of bank reconciliation adjustments occurred when DOF personnel assigned to perform and record bank reconciliation adjustments failed to record the adjustments after completing each monthly reconciliation. Additionally, assigned MHLO personnel failed to properly record all expenditures in the year the expenditures were incurred. As a result, MHLO Operations expenditures was understated by \$1,916 in FY 2000 and overstated by \$92,268 in FY 2001 and Medical Referral expenditures were overstated by \$16,199 in FY 2000 and understated by \$27,252 in FY 2001.

D. MHLO and P&S Property Listings Not Accurate and MHLO Property Not Tagged

To provide a system for management and accountability of property in the possession and control of any CNMI agency, certain control policies and procedures are needed. DOF issued the Property Management and Accountability Policy⁴ that:

- requires that all property of the Commonwealth Government, subdivisions and agencies be identified by a property control number. Because of MHLO's location, DOF-Procurement & Supply (P&S) has authorized MHLO to affix CNMI tags to its property.
- the Director of P&S shall maintain the master control inventory records of all property with the files and records to be designed and managed to permit timely and accurate retrieval of property records by any government branch, department or agency. As the MHLO office is based in Hawaii, MHLO does not go through DOF-P&S and does not use Purchase Order forms when acquiring goods or services. Instead, MHLO informs DOF-P&S of their property acquisitions through a memorandum.
- provides for survey requirements for lost, missing, damaged, destroyed and unserviceable property. Complete documentation is essential and the information provided will become the basis in determining the financial liability of accountable persons.

OPA's audit showed, however, that the property listing maintained by MHLO did not agree with the property listing maintained by DOF-P&S. More specifically, property valued at \$49,264 from the MHLO listing was not included in the DOF-P&S listing while property valued at about \$1,677 from the DOF-P&S listing was not included in the MHLO listing. MHLO also possessed 37 property items valued at \$6,931 and 29 property items acquired through donations that were not identified by a CNMI property control number. In addition, both the MHLO and DOF-P&S listings were inaccurate because of:

- duplicate items shown in the MHLO listing,
- items not tagged were excluded from both listings,
- items disposed, missing, or transferred to another agency were still included in both listings,
- property traded-in for other property was still included in both listings, and
- property received as donations was not documented or included in either the MHLO or DOF-P&S listings.

These misstatements regarding property occurred because DOF-P&S and MHLO lacked written policies and procedures (see Footnote 4) to guide them in maintaining an updated and accurate

⁴ The Property Management and Accountability Policy, which was issued January 4, 1985, by DOF, was replaced by the Property Management Policy and Procedures Manual, which became effective January 8, 2003. The objective of this new Property Management Policy and Procedures Manual "was to produce property management guidelines for all Departments and Activities, as well as very detailed systems based accounting and control procedures for P&S and [Finance and Accounting] to utilize in converting property records..."

listing of MHLO property. DOF-P&S did not update their property listing despite written communications from MHLO regarding its property acquisitions and disposals. MHLO did not consistently report its property acquisitions and disposals to DOF-P&S. OPA's review showed that only 4 of the 9 property items acquired during FYs 2000 and 2001 were reported to DOF-P&S. Also, MHLO did not affix CNMI tags to property items purchased for \$6,931 or property items received through donations. As a result, MHLO property is subject to an increased risk of misuse, loss, or theft.

E. Time and Attendance Not Properly Monitored or Documented

All employees, regardless of employment status, should use timecards or equivalent records so that: management can monitor daily time and attendance and ensure proper use of government time; and, timekeepers are provided a basis for reporting time charges. Management has no assurance that employees work 80 hours during a pay period without a written record evidencing the number of hours worked. If an employee is to be exempted from using a timecard, it should be done only in valid circumstances and alternative control procedures should be established in lieu of using timecards. Timecards and log-in/out sheets are also effective in accounting for absences and time spent out of the office.

OPA's review showed that MHLO timekeeping practices were inadequate and subject to errors and abuse. More specifically, OPA found that (1) the Bi-Weekly Time and Attendance report prepared for each of the eight MHLO employees, who were not required to use timecards, did not always match the daily log sheets maintained by the timekeeper for monitoring these employees' daily time and attendance, (2) no records were maintained to monitor the location of employees leaving the office for business during working hours, (3) no source documents were used to report the time charges of a former Liaison Officer, and (4) entries documenting arrivals and departures on employee timecards were incomplete.

These inadequate timekeeping practices occurred because MHLO lacked controls to monitor employees leaving the office for business during working hours and MHLO's controls for monitoring and documenting employees' daily time and attendance were inadequate. As a result, MHLO has no assurance that employees were paid based on actual hours worked. In addition, and employees not required to use a timecard may have been paid regular hours despite being on annual or sick leave.

Subsequent Events

After completion of audit fieldwork, OPA was informed that MHLO has begun using log sheets to monitor employees leaving the office for business during working hours. OPA appreciates the MHLO's initiative in implementing controls in this area.

F. Lack of Policies and Procedures for Long Distance Calls

Written policies and procedures should be developed and implemented to control and monitor long distance calls to ensure that public funds are spent only for public purposes and not for personal purposes.

MHLO did not establish policies and procedures to ensure that only valid and official long distance charges are paid with public funds. Of MHLO's five telephone lines with access to long distance calls, only two were supported with log sheets for recording long distance calls. Of the two telephone lines maintained by log sheets, one log sheet maintained by the Medical Referral section was discontinued in January 2001. The other telephone line with access to long distance calls was disconnected in the latter part of 2001. OPA found inconsistencies in the recording of long distance calls for the two telephone lines that were maintained by log sheets. In addition, no review procedures were established to ensure that only official long distance charges were paid with public funds.

The improper monitoring of long distance calls occurred because MHLO did not establish controls to monitor, document, and review long distance calls and ensure that only valid long distance charges were paid with public funds. As a result, MHLO has no assurance that long distance charges incurred and paid were for official purposes.

G. Deficiencies in Replenishment Vouchers and Supporting Check Registers

The replenishment voucher and supporting check register are used to replenish Imprest Fund cash and to record expenditures to the proper accounts. Amounts and details on the replenishment voucher and check register, therefore, should be accurately prepared.

OPA reviewed 42 replenishment vouchers and supporting check registers for the Operations Imprest Fund and 70 for the Medical Referral Imprest Fund for FYs 2000 and 2001 and found that 30 had one or more of the following types of deficiencies:

- checks issued but not recorded in the check register,
- erroneous check details posted in the check register,
- unreported voided checks,
- voided check amount was added back into Imprest Fund balance when it had not been deducted from the Imprest Fund balance,
- computation errors in Imprest Fund balance,
- error in beginning balance carried over into next replenishment voucher and supporting check register, and
- inconsistencies between the check register and expenditure reports.

These deficiencies occurred because MHLO failed to establish review procedures to ensure accurate preparation of replenishment vouchers and its supporting check registers. As a result, these deficiencies contributed to the unreconciled balances per DOF financial management system and MHLO check register for both the Operations and Medical Referral Imprest Funds in FY 2000 and FY 2001.

Concerns Regarding Official Representation Expenses

Official representation expenditures are intended to cover reasonable expenditures incurred by authorized government officials in entertaining government guests and other government officials or to promote goodwill or public interest. According to Article X, Sections 1 and 8 of the Northern Mariana Islands Constitution, public funds shall be spent only for public purpose and DOF shall control and regulate the expenditure of public funds.⁵

Public purpose is defined in 1 CMC §121, which states, in part, that: “the foremost test shall be whether it [the expenditure] confers a direct benefit to a culturally or traditionally significant part of the community as opposed to an incidental or secondary benefit and whether the community has an interest in having the individual or individuals benefitted.” Section 121 also provides a list of criteria in subsections (a) - (i)⁶ used to determine if an expenditure is for a public purpose and indicates that the list is not exclusive.

Of 37 samples of official representation expenditures selected for testing, OPA has concerns regarding 35 expenditures amounting to \$12,270. In addition, expenditures in the amount of \$10,448 were inadequately documented. The following is a breakdown of these expenditures:

Hosting meals and gatherings (\$6,014) - MHLO hosted CNMI students and medical referral escorts/patients on various dates including special occasions such as Thanksgiving and Christmas. Spending public funds for hosting on such occasions does not appear to be part of MHLO’s responsibilities. The law broadly states that MHLO “shall assist the Governor in faithfully executing the laws of the Commonwealth, including those laws, regulations and policies regarding off-island medical referrals, student assistance, and other matters. The duties and functions of the liaison officers shall be only such as are related to the functions of the Executive Branch of the [Commonwealth government].” OPA is not aware of any specific regulation or policy of the executive branch allowing the hosting of a limited number of constituents. It is also not prudent to use public funds for parties or gatherings, especially with very limited funds for medical referral expenses.

Bento Program (\$5,212) - MHLO provided a one-day supply of food to patients and/or escorts under the Medical Referral Program who arrive in Hawaii in the evening (and in emergencies) to allow them to prepare their meals until they receive their subsistence allowance on the following day. MHLO also grants a subsistence allowance of \$20 per day to outpatients and official escorts while in Hawaii. In computing the allowance, MHLO includes the day the patient arrived in Hawaii even though the patient and/or escort had received a one day provision of food under the Bento Program. Thus, the escorts and/or patients received a double benefit for that first day in Hawaii.

⁵ DOF adopted Regulations for the Control of Public Funds, Commonwealth Register Volume 22 Number 9, pages 17489 - 17497, published on September 20, 2000, which was during the scope of the audit, the purpose of which was “to establish policies and procedures and to provide uniform standards for the control of public funds as mandated under Article X, Section 8 of the Northern Mariana Islands Constitution.” The Regulations provided, among other things, definitions and guidance for processing official representation expenditures.

⁶ 1 CMC § 121 was created by Public Law 11-84, § 3, which included eight criteria codified as subsections (a) - (h). Public Law 12-2 subsequently amended section 3 of Public Law 11-84 to add a ninth criteria, which is codified at 1 CMC § 121(i).

Purchases of flower arrangements and fruit baskets (\$1,044) - MHLO purchased flower arrangements and fruit baskets for medical referral patients and for selected government officials. On one occasion, the MHLO purchased a bouquet for the “Governor and the CNMI Representatives” without any justification.

OPA’s concerns regarding these expenditures are based on the appearance that they do not meet the public purpose criteria. Specifically, the expenditures appear to benefit only a select group of individuals and it is unclear how the community has an interest in having these select individuals benefit.

The above condition occurred because the MHLO did not appear to understand and comply with the criteria set forth in 1 CMC § 121 and DOF did not closely regulate the MHLO’s official representation expenditures. As a result, public funds amounting to \$12,270 may not have been spent for public purpose or for the official business of MHLO.

Subsequent Events

OPA was advised that the Bento Program ceased on April 11, 2002. MHLO now provides patient/escort subsistence allowance of \$20 per day through its MHLO Medical Referral Imprest Fund. OPA appreciates MHLO’s initiative in discontinuing the Bento Program.

Other Matters

Timely Analysis of Hotel Room Usage Possibly Not Conducted

OPA found that MHLO negotiated a contract renewal on November 27, 2001, effective October 5, 2001, requiring the Pagoda Hotel to block 20 rooms for medical referral patients. Later in April 2002, MHLO renegotiated the contract revising it to 15 rooms effective June 5, 2002, thereby reducing the contract price by about \$50,970 for the period June 5 to October 5, 2002. OPA’s analysis showed that occupancy at the Pagoda averaged less than 15 rooms during the 8 months ending May 5, 2002. If MHLO had entered into a contract for 15 rooms at the time of contract renewal, the CNMI government would have saved \$77,157 during the 8 months between entering into the contract, in November 2001, and the renegotiation, in April 2002. The logical time to re-examine the hotel room usage was at the time MHLO entered into a new contract. OPA was unable to ascertain whether MHLO performed any such analysis prior to contract renewal in November 2001. If they had, the CNMI government would have saved \$77,157.

| Rental for the Month of | Paid by MHLO for 20 Blocked Rooms | Monthly Rental for 15 Blocked Rooms | Difference |
|-------------------------|-----------------------------------|-------------------------------------|------------|
| October 2001 | \$42,481 | \$32,638 | \$9,843 |
| November 2001 | 41,110 | 31,585 | 9,526 |
| December 2001 | 42,481 | 32,638 | 9,843 |
| January 2002 | 42,481 | 32,638 | 9,843 |
| February 2002 | 38,370 | 29,479 | 8,891 |
| March 2002 | 42,481 | 32,638 | 9,843 |
| April 2002 | 41,110 | 31,585 | 9,526 |
| May 2002 | 42,481 | 32,638 | 9,843 |
| TOTAL | \$332,993 | \$255,836 | \$77,157 |

Table 2: Comparison of Rental Costs (rounded) Between 15 and 20 Blocked Rooms at the Pagoda Hotel

CONCLUSIONS AND RECOMMENDATIONS

OPA found that MHLO did not perform timely analysis to reduce blocked rooms contracted at the Pagoda Hotel, which could have saved the CNMI government \$77,157 in rental costs. Also, OPA's review showed instances of non-compliance with, and actions not specifically authorized by CNMI laws, regulations, and policies regarding personnel, travel, use of official representation, and the Medical Referral Program. Internal controls over administration of expenditures, property, employee time and attendance, and monitoring of long distance calls were either not established or were inadequate. Lastly, OPA has concerns regarding \$12,470 in official representation expenses incurred by MHLO.

Accordingly, OPA recommends that AGO:

1. Issue a determination on whether recovery of funds for double benefits paid to a former Liaison Officer is appropriate and should be pursued.

OPA also recommends that MHLO:

2. Continually monitor the occupancy rate of medical referral patients at Pagoda Hotel and revise the contract with Pagoda Hotel as necessary.
3. Compute the total improper payments of housing allowances to employees hired in Hawaii, including those made prior to FY 2000, and initiate recovery of improper payments by forwarding the information to the AGO and making a legal query as to how to proceed in recovering the improper payments.
4. Issue a memorandum instructing MHLO employees to consistently time-in and time-out using the timecard, establish alternative procedures to document daily time and attendance of the Liaison Officer to be used for reporting time charges to the Special Assistant for Administration's timekeeper, and designate an employee to review the Summary Time Sheet to ensure accuracy of time charges prior to certification.

5. Strengthen current timekeeping procedures for monitoring daily time and attendance of employees who are not required to use the timecard by reviewing the Bi-Weekly Time and Attendance report with the daily log sheet maintained by the timekeeper to ensure accuracy of time charges recorded.
6. Comply with DOF Regulations for the Control of Public Funds to ensure that official representation expenses are documented completely.
7. Consult with DOF to ensure that MHLO's official representation expenditures meet public purpose prior to expending public funds. MHLO should comply with DOF's Regulations for the Control of Public Funds to ensure that official representation expenditures are justified and the appropriate forms are submitted.
8. Strictly enforce CNMI travel policies and procedures to ensure that:
 - After-the-fact TA requests and corresponding TVs are submitted immediately after travel is performed with adequate justification used as basis for the Governor's approval,
 - TVs are submitted within the 15 day requirement, and
 - All TVs submitted upon liquidation of travel advance are supported with a detailed trip report.
9. Designate staff (other than the staff who prepares the replenishment vouchers) to review replenishment vouchers and the supporting check registers before submission to DOF.
10. Instruct the Fiscal Officer to conduct a complete physical inventory of all MHLO property and immediately affix CNMI tags to property. MHLO should also comply with the new Property Management Policy and Procedures Manual which became effective January 3, 2003.
11. Establish and implement policies and procedures to control and account for long distance calls made by (1) assigning one staff to monitor and review monthly billing statements for long distance calls to ensure that only official long distance calls are paid with public funds, and (2) requiring all staff with long distance access to log *all* long distance calls for comparison with the monthly billing statements.

OPA also recommends that DOF:

12. Strictly enforce CNMI travel policies and procedures by:
 - Ensuring that no travel advance is issued to an individual without liquidating previous advances, and
 - Immediately initiate payroll deductions for travelers who fail to submit their TVs within the required period.

13. Establish policies and procedures requiring DOF staff to account and record expenditures and receivables related to advances for funeral service charges of medical referral patients.
14. Designate DOF staff to review: (a) the outstanding balance of receivable accounts (#12150 and #12151) and (b) disbursements and collections debited/credited to Professional Service expense account to establish an accurate outstanding receivable balance of each promisor.
15. Establish procedures and designate a DOF employee to perform follow-up on collection of outstanding receivables.
16. Establish written guidelines and procedures for the use of check exchanges. Such guidelines should address: (a) the purpose of check exchanges, (b) circumstances when a check may be issued through check exchange before receiving DOF-Treasury or DOF-Payroll approval, and (c) whether personal checks should be accepted for a check exchange. As DOF requires pre-approval of all check exchange transactions, DOF should establish monitoring procedures to ensure that all check exchanges are collected and credited to the check exchange receivable account.
17. Issue a memorandum instructing staff to: make adjustments to the proper fund and receivable accounts. The Secretary of Finance should also instruct the staff assigned to record expenditure transactions concurrently with payment transactions to avoid double recording of disbursements. (The Secretary of Finance should ensure that Acct#1972 should be used for all expenditure transactions of medical referral operations, Acct#1041 should be used for operations of MHLO other than medical referral, and Receivable Acct#12160 should be used for disbursements and deposits of check exchange transactions).
18. Ensure that: MHLO complies with DOF's Regulations for the Control of Public Funds; MHLO's official representation expenditures meet public purpose criteria; and, all requests for reimbursement for unauthorized or unsupported expenditures are disallowed.

OPA also recommends that OPM:

19. Establish a written procedure instructing staff to verify the point of recruitment of employees to determine entitlement to housing allowance. Such procedure may require agencies to document employees' residency when hired or verify employee's present address as stated on the application form.

Lastly, OPA recommends that DPH:

20. Require patient escorts to follow the MRPRR's requirements regarding filing TVs or, alternatively, amend the existing regulations to provide for a revised method of ensuring that travel and subsistence payments made to or for escorts are accurately paid, substantiated and verified.

AGO Response

Recommendation 1 - In a letter dated July 27, 2005 (**Appendix A**), the Attorney General stated that the AGO will take OPA's recommendation under advisement and review the matter. The AGO requested OPA forward all documents generated in connection with the particular contract cited in the report in order to expedite their review.

OPA Response - This recommendation is considered open. OPA forwarded all pertinent documents relating to the contract to the AGO on August 1, 2005. The AGO should inform OPA of the results of its review and whether recovery of funds for double benefits paid to a former Liaison Officer is appropriate and be pursued.

MHLO Response

In a letter dated July 6, 2005 (**Appendix B**), the Liaison Officer generally accepted with OPA's findings and has implemented controls to address OPA's concerns and recommendations. MHLO's response to each recommendation are as follows:

Recommendation 2 - MHLO is now monitoring the occupancy rate of medical referral patients at the Pagoda Hotel.

OPA Response - The corrective action taken by MHLO to address OPA's concerns on this matter is sufficient to consider this recommendation now closed.

Recommendation 3 - MHLO is currently working on pursuing the matter of improper payments of housing allowances for employees hired in Hawaii. MHLO will notify OPA of its findings in the near future.

OPA Response - This recommendation is considered resolved. MHLO should inform OPA of the results of its review and legal query with the AGO on the improper payments of housing allowances.

Recommendation 4 - A Daily Time and Attendance Sheet is prepared for the Liaison Officer and the Liaison Officer now signs a leave form concurred by the Special Assistant for Administration when planning to take leave.

OPA Response - This recommendation is considered open. OPA understands that the Daily Time and Attendance Sheet prepared is to be used as a basis for reporting the time charges of the Liaison Officer to the Special Assistant for Administration. MHLO did not, however, address the part of the recommendation requiring the Liaison Officer to: issue a memorandum instructing MHLO employees to consistently time-in and time-out using the timecard; and, designate an employee to review the Summary Time Sheet to ensure accuracy of time charges prior to certification. MHLO should provide OPA a copy of the memorandum instructing MHLO employees to consistently time-in and time-out using the timecard as well as inform OPA of the staff designated to review the Summary Time Sheet prior to certification.

Recommendation 5 - The MHLO timekeeper monitors and prepares a Time and Attendance Sheet for each employee including those employees who are not required to use the timecard.

OPA Response - This recommendation is considered open. OPA reiterates that the Liaison Officer review and compare the Time and Attendance Sheet to the daily log sheet maintained by the timekeeper to ensure accuracy of time charges. This is necessary in order to detect discrepancies such as those found during OPA's review. Examples of discrepancies found during OPA's comparison between the Time and Attendance Sheet and the daily log sheet included: daily attendance reflected on the Time and Attendance Sheet was not always recorded on the daily log sheet; annual leave taken by employees and recorded on the daily log sheet was not always reflected on the Time and Attendance Sheet; and annual leave reflected on the Time and Attendance Sheet was not always recorded on the daily log sheet. MHLO should inform OPA of additional review procedures the Liaison Officer will adopt and implement to detect discrepancies before Time and Attendance Sheets for employees not required to use a timecard are approved.

Recommendation 6 - MHLO will ensure that future official representations and justifications are properly documented and will include the (1) name/position of persons entertained, (2) nature and purpose of the expense and its direct relationship to CNMI government business matters, (3) description of matters discussed, and (4) original receipts and supporting documents.

OPA Response - The corrective action taken by MHLO to address OPA's concerns on this matter is sufficient to consider this recommendation now closed.

Recommendation 7 - The Liaison Officer stated that due to the fact that a time difference exists between Hawaii and the CNMI and plans are made accordingly, it will be extremely difficult for the Liaison Officer to obtain prior approval from DOF for official representation expenditures. The Liaison Officer further stated that as the legal expenditure authority with 100% liability, it would be logical to depend on the Liaison Officer's discretionary decision in regards to the legitimacy of official representation expenditures. If for any reason, official representation expenditures incurred does not meet DOF's approval, the Liaison Officer will reimburse the MHLO in full for the amount expended.

OPA Response - This recommendation is considered open. OPA would like to clarify the intent of the recommendation. OPA agrees that it is impractical for MHLO to obtain prior approval from DOF each time official representation will be incurred because MHLO can directly record expense transactions into the DOF financial management system and then retain all supporting documents in the Hawaii office. DOF, therefore, is unable to examine the official representation incurred in order to verify and approve or reject the transaction. However, OPA recommends that MHLO consult with DOF in writing to clarify what types of payments can be classified as official representation. For example, MHLO should seek guidance whether those cited in the report such as: hosting meals and gatherings for CNMI students and medical referral escorts/patients, purchase of flower arrangements or fruit baskets for medical referral patients and/or selected government officials and other types of expenditures likely to be incurred can be considered official representation. This will help MHLO ensure that future payments for official representation will meet the public purpose requirements for expending public funds. MHLO

should inform OPA of the results of its communication with the DOF on this matter to formally close this recommendation.

Recommendation 8 - MHLO currently files travel vouchers with DOF within the 15 day requirement after completion of travel. In addition, all travel advances are supported with a detailed trip report and has been enforced since the new Liaison Officer began work in January 2005.

OPA Response - The current action taken by MHLO to address OPA's concerns on this matter is sufficient to consider this recommendation now closed.

Recommendation 9 - The Liaison Officer stated that MHLO does not submit replenishment vouchers to DOF since MHLO took over the entering, approving, and posting of all expenditures to the DOF financial management system.

OPA Response - This recommendation is considered open. OPA acknowledges that MHLO enters, approves, and posts expenditures for the Operations and Medical Referral Imprest Fund accounts directly to the DOF financial management system. However, it is OPA's understanding that MHLO submits replenishment vouchers with supporting check registers to DOF which DOF uses as the basis for replenishing Imprest Fund cash for the Operations and Medical Referral accounts. As cited in the report, examples of the types of deficiencies found during OPA's review of replenishment vouchers and supporting check registers for both the Operations and Medical Referral Imprest Fund accounts were: checks issued but not recorded in the check register; erroneous check details posted in the check register; computation errors in Imprest Fund balance; inconsistencies between the check register and expenditure reports, among others. OPA, therefore, reiterates that MHLO should designate a staff (other than the staff who prepares the replenishment vouchers) to review replenishment vouchers and supporting check registers before submission to DOF for replenishment of Imprest Fund accounts. This segregation of duties will help ensure that all payments will be completely and accurately recorded.

Recommendation 10 - MHLO provided OPA and DOF-P&S a copy of their complete inventory list of all MHLO property dated March 2, 2005. The Liaison Officer stated that all MHLO property has been tagged and a staff member has been designated to monitor and review MHLO property on a monthly basis.

OPA Response - The corrective action taken by MHLO and the copy of the updated inventory list provided to OPA are sufficient to consider this recommendation now closed.

Recommendation 11 - MHLO has established and implemented controls for long distance calls. A staff member has been designated to monitor, document, and review all long distance calls to ensure that only valid long distance calls are paid with public funds. MHLO will also reinforce the logging in of all long distance calls by all MHLO staff.

OPA Response - This recommendation is considered resolved. MHLO should provide OPA with a copy of the memorandum informing MHLO staff of the established policies and procedures to control and account for long distance calls. The memorandum should require all MHLO staff to log *all* long distance calls for comparison with the monthly billing statements and include the

identity of the staff member designated to monitor and review monthly billing statements for long distance calls.

DOF Response

In a letter dated August 3, 2005 (**Appendix C**), the Secretary of Finance informed OPA of actions taken to address OPA's recommendations. OPA was also provided a copy of the memorandum from the Secretary of Finance to the Acting Director of Finance and Accounting dated August 1, 2005 directing and authorizing certain actions to implement OPA's recommendations. The specific actions directed by the Secretary of Finance in response to each recommendation are as follows:

Recommendation 12 - The Acting Director of Finance and Accounting was directed to ensure that staff assigned to the DOF-Travel Section enforce travel policies and procedures now in place by ensuring previous advances are liquidated prior to a new advance being issued and that payroll deductions are promptly implemented for travelers who fail to submit travel vouchers within the required time frame.

OPA Response - The corrective action taken by DOF to address OPA's concerns on this matter is sufficient to consider this recommendation now closed.

Recommendation 13 - DOF agreed with the intent of the recommendation but added that DPH and MHLO have the responsibility to insure transactions are properly entered. To address OPA's concern, the Acting Director of Finance and Accounting was directed to assign a staff member to work with DPH and MHLO to assist them in setting up procedures to ensure proper coding of payment vouchers and cash receipts when entering them into the DOF financial management system. The Secretary of Finance directed this action as DPH and MHLO enter their own payment vouchers and cash receipts into the DOF financial management system and have the responsibility to insure initial transactions are properly entered and the proper accounting codes are used.

OPA Response - This recommendation is considered resolved. OPA agrees that DOF's assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. Since DOF has a better understanding of the system and the proper coding of payments and receipts, OPA believes that it will also be helpful if DOF establish guidelines and procedures in the proper coding and recording of these payments and receipts which DPH and MHLO can follow. DOF should provide OPA a copy of the written guidelines and procedures adopted to ensure proper accounting and recording of funeral service advances. These procedures should be in writing and include target dates for implementation.

Recommendation 14 - DOF agreed with the intent of the recommendation but added that DPH and MHLO have the responsibility to insure transactions are properly entered. To address OPA's concern, the Acting Director of Finance and Accounting was directed to assign a staff member to work with DPH and MHLO to assist them in setting up procedures to insure proper coding of payment vouchers and cash receipts when entering them into the DOF financial management system.

OPA Response - This recommendation is considered resolved. Although the benefit of what DOF intends to do will only be realized prospectively, OPA agrees that DOF's assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. As DOF has a better understanding of the system and the proper coding of payments and receipts, OPA believes that it will also be helpful if DOF establish guidelines and procedures in the proper coding and recording of these payments and receipts which DPH and MHLO can follow. DOF should provide OPA a copy of the written guidelines and procedures adopted to ensure proper accounting and recording of funeral service advances. These procedures should be in writing and include target dates for implementation.

Recommendation 15 - The Secretary of Finance stated that this recommendation should be directed to DPH as they are the originator of the receivable and have a collection section experienced in following up on outstanding receivables.

OPA Response - This recommendation is considered open. OPA inquired with a MRO staff member and was informed that their files relating to funeral service receivables and collections are incomplete. OPA made inquiry to CHC-Collections and Billing Department and was informed that they are not responsible for periodic billings and follow up on outstanding funeral service receivables. OPA was informed that the CHC-Collections and Billing Department only coordinates with the MRO when a probate claim needs to be filed.

It appears that it is unclear as to where responsibility for maintaining the records and ensuring collection of funeral service receivables lies. Since DPH is the originator of the receivable, OPA agrees with DOF that it is more practical that DPH, in coordination with MRO, be responsible for following up on these receivables. However, OPA believes that it would be more beneficial to DPH if DOF officials meet with DPH officials and assist them in establishing procedures to monitor and follow up on these outstanding receivables. DOF should inform OPA of the results of their meeting with DPH and also inform OPA whether an agreement was reached as to which agency will bill and follow up on collection of funeral service receivables. OPA should also be provided with a copy of the written procedures on recording, billing, and monitoring of funeral service receivables.

Recommendation 16 - The Acting Director of Finance and Accounting was directed to prepare written guidelines for the use of the check exchange account and provide a copy to MHLO and assign a staff member to review the check exchange account periodically to ensure MHLO is following the guidelines.

OPA Response - This recommendation is considered resolved. DOF should provide OPA a copy of the written guidelines for the use of the check exchange account for OPA's review.

Recommendation 17 - DOF agreed with the intent of the recommendation but added that DPH and MHLO have the responsibility to insure transactions are properly entered. To address OPA's concern, the Acting Director of Finance and Accounting was directed to assign a staff member to work with DPH and MHLO to assist them in setting up procedures to insure proper coding of payment vouchers and cash receipts when entering them into the DOF financial management system.

OPA Response - This recommendation is considered resolved. Although the benefit of what DOF intends to do will only be realized prospectively, OPA agrees that DOF's assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. Proper coding and accurate recording will then eliminate the need for DOF to perform future bank reconciliation adjustments to correct expenditure accounts of MHLO Operations and Medical Referral Imprest Funds. DOF should provide OPA the name of the DOF official who will be responsible for assisting DPH and MHLO and the target date to complete the task as well as a copy of the written guidelines and procedures to be followed by DOF and MHLO.

Recommendation 18 - The Acting Director of Finance and Accounting was directed to prepare a memorandum for the Secretary of Finance's signature transmitting a copy of the Regulations for the Control of Public Funds to MHLO and stating that DOF will not reimburse the imprest fund account for improper expenditures and that the authorizing official will be responsible for repayment and instruct DOF-Finance and Accounting staff to review imprest fund replenishment requests and deny reimbursement for improper disbursements.

OPA Response - This recommendation is considered resolved. DOF should provide OPA a copy of the memorandum transmitted to the Marianas Hawaii Liaison Officer and a copy of the memorandum issued to DOF-Finance and Accounting staff instructing them to review Imprest Fund replenishment requests and to deny reimbursement for improper disbursements.

OPM Response

Recommendation 19 - On August 1, 2005 (**Appendix D**), the Acting Director of Personnel provided OPA a draft copy of Policy and Procedure No. 1026-106 entitled "Housing or Housing Allowance Benefit for Authorized Government Employees". As provided under section 5.0, "Procedures for Confirming Eligibility for Housing or Housing Allowance", OPM staff are required to review the application at the time of submission, if submitted personally by the applicant, and should confirm based on specific guidelines whether the employee is considered a local hire or outside-the-Commonwealth hire. Also, Department or Activity staff members responsible for processing the contract document are required to perform post-offer reference checks including verification of actual place of residence and should have the employee complete, prior to the preparation of the contract document, a certification form attesting to the employee's Point of Recruitment. Entitlement to the housing allowance or government housing must be supported by the pre-contracting reference check and certification by the employee.

According to the Acting Director of Personnel, Policy and Procedure No. 1026-106 will be finalized and distributed after the review and approval of the Director of Personnel.

OPA Response - This recommendation is considered resolved. OPM should provide OPA a copy of Policy and Procedure No. 1026-106 officially approved by the Director of Personnel to formally close this recommendation.

DPH Response

Recommendation 20 - In his response dated August 3, 2005 (**Appendix E**), the Acting Secretary of Public Health stated that the current version of the MRPRR does not require escorts to file travel vouchers upon completion of travel. The Acting Secretary of Public Health further added that there are adequate internal controls to ensure proper payments are made that substantiates and verifies expenditure of public funds. More specifically: travel and subsistence payments for patient escorts are substantiated and verified through an official travel authorization form in Saipan prior to departure; additional subsistence and/or travel allowances requested by the liaison office are pre-approved by MRO before disbursement; and total subsistence, travel allowance, and hotel accommodations issued to an escort as provided in an exit report prepared by the liaison office is reconciled by DOF for liquidation of encumbered funds and reports to MRO any overpayments and underpayments.

OPA Response - This recommendation is considered open. OPA confirmed that the particular section of the MRPRR is unchanged and still requires escorts to file travel vouchers upon completion of travel. OPA believes that the current process detailed by DPH is adequate to ensure that travel and subsistence payments made to or for escorts are accurately paid, substantiated and verified. OPA also believes that the current process is preferable as patient escorts are not traveling as government employees and, may not be subject to executive branch travel policies. Furthermore, the travel voucher process is not defined or detailed elsewhere in the MRPRR, making enforcement of the provision difficult. OPA, therefore, recommends that DPH amend the existing regulations to remove the submission of travel voucher requirement and establish written procedures (current process in place) for ensuring that subsistence payments are accurately paid, substantiated and verified. Unless the relevant section of the MRPRR is amended, the MRPRR still requires escorts to file travel vouchers with the MRO. DPH should provide OPA with a copy of the amended section of the MRPRR removing the submission of travel voucher requirement for patient escorts and a copy of the written procedures for ensuring that subsistence payments are accurately paid, substantiated and verified.

Status of Recommendations

Based on the responses received from AGO, MHLO, DOF, OPM, and DPH, OPA considers recommendations 1, 4, 5, 7, 9, 15 and 20 as open, recommendations 3, 11, 13, 14, 16, 17, 18 and 19 as resolved, and recommendations 2, 6, 8, 10 and 12 as closed.

★ ★ ★

Our office has implemented an audit recommendation tracking system. All audit recommendations will be included in the tracking system as open or resolved until we have received evidence that the recommendations have been implemented. An *open* recommendation is one where no action or plan of action has been made by the client (department or agency). A *resolved* recommendation is one which the auditors are satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame of action. A *closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or we have withdrawn it.

Please provide us the same status of recommendation implementation within 30 days along with documentation showing the specific actions taken. If corrective actions will take longer than 30 days, please provide us additional information every 60 days until we notify you that the recommendation has been closed.

Sincerely,

Michael S. Sablan, CPA
Public Auditor

cc: Attorney General, Office of the Attorney General
Secretary, Department of Finance
Secretary, Department of Public Health
Personnel Director, Office of Personnel Management



Commonwealth of the Northern Mariana Islands
Office of the Attorney General

2nd Floor Hon. Juan A. Sablan Memorial Bldg.
Caller Box 10007, Capitol Hill
Saipan, MP 96950

Civil Division
Tel: (670) 664-2341/42
Fax: (670) 664-2349

Criminal Division
Tel: (670) 664-2366/67/68
Fax: (670) 234-7016

Investigative Unit
Tel: (670) 664-2310/12
Fax: (670) 664-2319

**Division of
Immigration**

Saipan
Tel: (670) 236-0922/23
Fax: (670) 664-3190

Rota
Tel: (670) 532-9436
Fax: (670) 532-3190

Tinian
Tel: (670) 433-3712
Fax: (670) 433-3730

**Domestic Violence
Intervention Center**
Tel: (670) 664-4583/4
Fax: (670) 234-4589

July 27, 2005

Michael S. Sablan
Public Auditor
Office of the Public Auditor
1236 Yapp Drive
Capitol Hill
Saipan, MP 96950

RECEIVED
JUL 28 2005
OPA [Signature]

Re: Draft Report- Audit of the Marianas Hawaii Liason Office

Dear Mr. Sablan:

I have reviewed your draft report of the Marianas Hawaii Liason Office. In your report you have recommended that AGO, "issue a determination on whether recovery of funds for double benefits paid to a former Liason Officer is appropriate and should be pursued. (p.20 Draft report)

AGO will review and take this under advisement and review the matter. In order to expedite our review, it would be helpful if your office would forward all documents generated in connection with this particular contract. This would include, the NOPA, the contract, the executive orders you refer to and any other such paperwork.

Should you have any questions concerning this matter please feel free to contact Deputy Attorney General Clyde Lemons, Jr. at your convenience.

Sincerely,

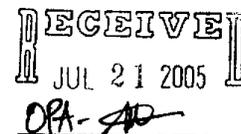
Pamela Sue Brown
Attorney General



OFFICE OF THE GOVERNOR
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MARIANAS HAWAII OFFICE

July 6, 2005

Mr. Michael S. Sablan, CPA
Public Auditor
1236 Yap Drive
Capitol Hill, Saipan MP 96950



Dear Mr. Sablan:

This letter is to address the eleven (11) concerns/ recommendations in the Draft Report-Audit of the MHO 1999 through December 31, 2002. Following are the responses to your queries and answered with corresponding item numbers:

2. We are now monitoring the occupancy rate of Medical Referral Patients at Pagoda Hotel and have revised the contract with Pagoda Hotel beginning March 05, 2005 to change from ten (10) MHO Blocked Rooms to fifteen (15) Block Rooms. This increase in Blocked Rooms is to take into account the high peak seasons. To date, we have been exceeding the room ratio due to an increase in the number of patients from the CNMI. Also, the MHO Blocked Room rate is \$71.30 per room, per day. Pagoda Hotel charges the MHO \$74.65 per room per day for a Non-blocked room. There is a savings realized of \$3.35 per room per day for MHO Blocked Rooms. Gone are the days when even CNMI tourists are accommodated at hotels upon the Liaison Office's request for hotel accommodations.
3. We are currently working on pursuing the matter of the improper payments of housing allowances for employees hired in Hawaii and we will notify you of our findings in the near future.
- 4& 5. Currently, for employees who are not required to use the timecard, the Timekeeper monitors and prepares a Daily Time and Attendance Sheet for each employee including the employees who are not required to time in. Any MHO employee who has to leave the Office must inform the Liaison Officer, the Timekeeper or the Receptionist if they are to be away from the Office. For other employees who are out in the field, they are required to complete an Activity Sheet and log in the actual time they are out in the field. The Liaison Officer is a Governor's Appointee and is required to be available 24/7 if

Page 2
Response to Public Auditor's Audit 1999-2002
July 6, 2005

necessary. A Daily Time and Attendance is prepared for the Liaison Officer, she is required to sign a Leave form concurred by the SAA when she plans to be off work.

6. We cannot change what was done during the previous Liaison Officers' management of the MHO however, we will insure that future Official Representations and Official Justifications are properly documented and will include the four (4) recommendations that you suggested, i.e. 1. Name/position of persons entertained, 2. Nature and purpose of the expense and its direct relationship to CNMI Government business matters, 3. Description of matters discussed and, 4. Original receipts and supporting documents.
7. We cannot change previous decisions by former Liaison Officers, however, under my tenure I will use my discretion to justify expenditures in the OR. If however, my OR expenditures does not meet with DOF's approval for any reason, I will reimburse the MHO in full for the amount expended. The fact that a time difference exists between Hawaii and the CNMI and that plans are made accordingly, constitutes an extreme difficulty for the Liaison Officer to obtain prior approval from the DOF for OR expenditures. As the legal expenditure authority with 100% liability, it would be logical to depend on the discretionary decision made by the Liaison Officer in regards to the legitimacy of OR expenditures.
8. The filing of Travel Vouchers to be submitted to DOF within (15) days requirement after travel is currently done. All travel advances are supported with a *detailed trip report* and has been enforced since our new Liaison Officer began work in January, 2005.
9. All MHO expenditures are entered, approved, and posted on the JD Edward Program by MHO trained and DOF certified Staff. The MHO currently does not submit replenishment vouchers to the DOF since MHO took over the entering, approving, and posting of all expenditures under the JD Edward Program. Three (3) MHO Staff, including two (2) Certifiers are assigned by DOF to enter all MHO expenditures. If one (1) Certifier enters data, the other Certifier approves and posts and continued in this manner, i.e. vise versa when sending data to the DOF through the JD Edward Program.
10. A complete physical inventory of all MHO Property has been performed. All MHO Property have been tagged, and the MHO Inventory list has been updated to 2005. We have provided our CNMI Procurement and Supply Division an updated MHO inventory list. The MHO has assigned a staff to monitor and review MHO Property on a monthly basis (Please see the attached inventory list dated March 2, 2005).

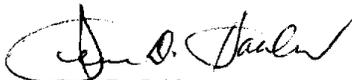
Page 3
Response to Public Auditor's Audit 1999-2002
July 6, 2005

11. Established controls for long distance calls is currently implemented. We have assigned a Staff to monitor, document, and review all long distance calls to insure that only valid long distance calls are legitimate. We will reinforce the logging in of all long distance calls by all MHO Staff.

As you can observe, a machinery of internal controls put in place by the DOF and implemented by the MHO addresses many of your concerns. We hope that we had addressed the bulk of your concerns. We look forward to working with you to prevent any misguided or misinterpreted decisions from here on out.

As I have written in my letter of July 5, 2005 to your Office, I have always known that this is a political Office and have been trying to change this, at least internally. The staff and I appreciate your office's diligence in assessing our operating activities and recommending necessary measures to prevent abuse and misuse of any public funds allocated to this Office. There will be no hesitation on our part to install measures that you recommend in accordance to the law, to insure that **improprieties of the past** do not continue under my watch. I welcome such assessments as it should be so, for as long as it is conducted government-wide and with bi-partisan assiduity.

Sincerely,



Jean D. Sablan

c: Attachments: 1. 2005 Inventory List



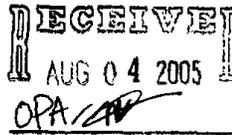
Office of the Secretary
Department of Finance

P.O. Box 5234 CHRBSAIPAN, MP 96950

TEL. (670) 664-1100 FAX: (670) 664-1115

August 03, 2005

Michael S. Sablan
Public Auditor
Office of the Public Auditor
1236 Yap Drive
Capitol Hill
Saipan, MP 96950



SFL2005-212

Subject: Draft Report - Audit of the Marianas Hawaii Liaison Office, October 1, 1999
through December 31, 2002

Dear Mr. Sablan:

Thank you for the opportunity to comment on the above referenced draft audit report. Following is our response to the seven findings directed to the Department of Finance. A memo, dated August 1, 2005, has been written to the Acting Director of the Division of Finance and Accounting directing certain actions to be taken regarding these recommendations. A copy of the memo is attached.

Finding 12 – Strictly Enforce CNMI travel policies and procedures

We agree with this recommendation. The above referenced memo directs the Finance and Accounting Division to enforce travel policies and procedures now in place through 1 CMC Section 7407, Executive Order 154 and the former Secretary of Finance's memo SFM98-236 dated April 28, 1998. In particular, they should ensure previous advances are liquidated prior to a new advance being issued and that payroll deductions are promptly implemented for travelers who fail to submit vouchers within the required time frame.

Finding 13 – Establish policies and procedures to account for receivables related to advances for funeral service charges of medical referral patients.

While we agree with the intent of this recommendation, Findings 13, 14 and 17 appear to be so closely related they should be in one finding. In addition, while this recommendation is addressed only to DOF, we feel DPH and MHLO have the responsibility to insure initial transactions are properly entered. DPH and MHLO enter their own payment vouchers and cash receipts into the Financial Management System and need to insure the proper accounting codes are used. DOF has set up the receivable accounts to require use of the individual address book code under each account code so that balances can be maintained by customer. We have experienced a lot of rejected transactions as DPH does not consistently enter the customer code

Page 2 – August 3, 2005 OPA Letter

for payments. We have also noted that the medical referral account receivables and some of the funeral receivables are recorded under the CHC receivable account 1012.12030. Recording these again under Fund 1010 would duplicate the receivable amount. As noted in the above referenced memo, DOF will work with DPH and MHLO to assist them in the proper transaction coding.

Finding 14 – Designate DOF staff to monitor and reconcile outstanding receivable account balances.

See response to Finding 13. As noted in the above referenced memo, we will assign a staff member to work with DPH and MHLO to assist them in setting up procedures to insure proper coding of payment vouchers and cash receipts when entering them into the FMS.

Finding 15 – Establish procedures and designate DOF staff to perform follow up on outstanding receivable balances.

We feel this finding should be directed to DPH since they are the originator of the receivable and already have a collection section experienced in follow up on outstanding receivables.

Finding 16 – Establish written guidelines and procedures for the use of check exchange.

We agree with this recommendation. As noted in the above referenced memo, DOF will prepare written guidelines for the use of the check exchange account and provide a copy to MHLO. A staff member will be assigned to review the check exchange account periodically to ensure MHLO is following the guidelines.

Finding 17 – Issue memorandum instructing staff to make adjustments to the proper fund and receivable accounts.

See response to Finding 13. Again this finding is addressed only to DOF when MHLO and DPH are entering their own transactions and have primary responsibility for ensuring proper account codes are used. As noted in the above referenced memo, we will assign a staff member to work with DPH and MHLO to assist them in setting up procedures to insure proper coding of payment vouchers and cash receipts when entering them into the FMS. In the past, DOF has made year end adjustments to record bank reconciling items not recorded by MHLO. The transactions need to be recorded and if timely information is not forthcoming from MHLO or DPH regarding the proper accounting codes, the entries are made with the best information available.,

Finding 18 – Ensure MHLO complies with DOF's Regulations for the Control of Public Funds and deny requests for reimbursement of unauthorized expenditures.

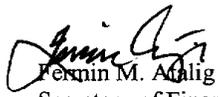
We agree with this finding. As noted in the above referenced memo, a memo from the Secretary of Finance will transmit a copy of the Regulations for Control of Public Funds to MHLO stating

Page 3 – August 3, 2005 OPA Letter

we will not reimburse the imprest account for improper expenditures and that the authorizing official will be responsible for repayment. Our staff will review imprest replenishment requests and deny reimbursement for improper disbursements.

Thank you again for the opportunity to respond to this draft audit. Let me know if you need additional information.

Sincerely,

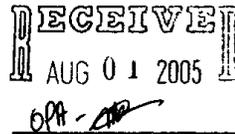

Fernin M. Atalig
Secretary of Finance



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
OFFICE OF THE GOVERNOR
OFFICE OF PERSONNEL MANAGEMENT
P.O. Box 5153 CHRB, SAIPAN, MP 96950 - 5153
TEL. NOS.: (670) 234-6925 / 6958 / 8036
FAX NO.: (670) 234-1013

01 AUG 2005

Mr. Michael S. Sablan, CPA
Public Auditor
Office of the Public Auditor
P.O. Box 501399
Saipan, MP 96950



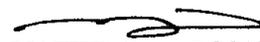
Dear Mr. Sablan:

I am responding, as directed, to your letter of June 8, 2005, on the subject *Draft Report - Audit of the Marianas Hawaii Liaison Office, October 1, 1999 through December 31, 2002*. This letter, in Recommendation No. 19, recommended that the Office of Personnel Management establish a written procedure instructing staff to verify the point of recruitment of employees to determine entitlement to housing allowance.

The enclosed draft document, Policy and Procedure No.: 1026-106, *Housing or Housing Allowance Benefit for Authorized Government Employees*, is submitted in fulfillment of this recommendation. This Policy and Procedure will be finalized and distributed upon review and approval by the Director of Personnel. Although, as the Acting Director of Personnel, I hold and can exercise the full authority of the position, I prefer to reserve policy approval and initiation to the Director of Personnel. A copy will be forwarded to you upon his approval.

I am confident that this Policy and Procedure fully satisfies the intent of your Recommendation. However, if, upon your review, you feel additional procedures are required, please do not hesitate to contact me.

Sincerely,


MATHILDA A. ROSARIO
Acting Director of Personnel

w/enclosure



Commonwealth of the Northern Mariana Islands

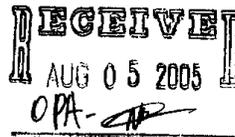
Department of Public Health

Office of the Secretary of Public Health



August 3, 2005

Mr. Michael S. Sablan, CPA
Public Auditor
Yap Drive
Capitol Hill, Saipan MP 96950



Dear Mr. Sablan:

**Subject: RESPONSE TO DRAFT AUDIT REPORT OF THE MARIANAS
HAWAII LIAISON OFFICE FROM 1999 – 2002**

Thank you for the opportunity to respond to the audit findings contained in the draft report of the Marianas Hawaii Liaison Office. The Department of Public Health agrees and does not refute the findings and recommendations and has prepared the following response:

OPA Recommendation:

Require patient escorts to follow the MRPRR's requirements regarding filing TVs or, alternatively, amend the existing regulations to provide for a revised method of ensuring that travel and subsistence payments made to or for escorts are accurately paid, substantiated and verified.

DPH Response:

The current version of the MRPRR does not require escorts to file travel vouchers upon completion of travel. However, the travel and subsistence payments for patient ESCORTS are paid accurately, substantiated and verified through an official Travel Authorization Form processed by the Medical Referral Office in Saipan prior to departure. Moreover, additional subsistence and/or travel allowances are allowed after prior requests are made by the liaison office and pre-approved by CNMI Medical Referral Office before disbursement. Lastly, when escorts complete their travel, an exit report is generated by the liaison office summarizing the total amount of maintenance benefits (e.g. subsistence, travel allowance, hotel accommodation) that were issued to the escort. This information is then reconciled by the Office of Finance and Accounting for liquidation of encumbered funds; overpayment and underpayments are then reported to the MRO office by the Director of Finance and Accounting. The DPH feels that there is adequate internal controls to ensure proper payments are made that substantiates and verifies expenditure of public funds. Nonetheless,

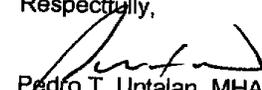
Page 1

PO Box 500409 CK, Saipan MP 96950
Telephone: (670) 236-8202 FAX: (670) 234-8930
e-mail: dphsec1@vzpacifica.net

the MRO program will evaluate the current process and make necessary improvements/changes to better address OPA's recommendation.

Thank you once again for the opportunity to comment on the draft report. Please feel free to contact my office if you need additional information.

Respectfully,



Pedro T. Untalan, MHA
Acting Secretary of Public Health

cc: Medical Referral Administrator

Page 2

PO Box 500409 CK, Saipan MP 96950
Telephone: (670) 236-8202 FAX: (670) 234-8930
e-mail: dphsec1@vzpacifica.net

