



**Office of the Public Auditor**  
Commonwealth of the Northern Mariana Islands

**Verification of Expenses and Review of  
Selected Administrative Practices of the  
Washington Representative's Office  
Fiscal Years 1995 and 1996**



**Audit Report**  
**AR-99-02**



## Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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March 29, 1999

The Honorable Juan N. Babauta  
Resident Representative  
Office of the Resident Representative to the United States  
for the Commonwealth of the No. Mariana Islands  
2121 R Street, NW  
Washington, D.C. 20008

and

Ms. Lucy Dlg. Nielsen  
Secretary, Department of Finance  
Capitol Hill  
Saipan, MP 96950

Dear Representative Babauta and Secretary Nielsen:

**Subject: Cover Letter - Final Audit Report on the Verification of Expenses and Review of Selected Administrative Practices of the Washington Representative's Office for Fiscal Years 1995 and 1996 (Report No. AR-99-02)**

The enclosed final audit report presents the results of our Verification of Expenses and Review of Selected Administrative Practices of the Washington Representative's Office (WRO) for Fiscal Years 1995 and 1996. The objective of the audit was to determine whether (1) funds transferred to WRO were properly controlled and accounted for, (2) expenditures were adequately documented, recorded, and considered reasonable, and (3) selected management practices were effective, efficient and economical. The review covered financial transactions and administrative activities occurring during the fiscal year periods ending September 30, 1995 and September 30, 1996.

Our review disclosed errors and misclassification in the recording of expenditures in the official books at the Department of Finance (DOF). Our review also disclosed a need for WRO to improve or correct its procedures and establish more effective controls over repatriation and expatriation benefits, housing benefits, annual leave benefits, maintenance of personnel records, travel advances, procurement, and use of representational funds.

We recommended that the Secretary of Finance require the Director of Finance and Accounting to:

1. Provide WRO in Washington with an updated chart of accounts, and assure that any deviations by WRO from the official cost category descriptions are first cleared with DOF in Saipan.
2. Prepare a reconciliation between expenses recorded by WRO and expenses recorded by DOF in Saipan for fiscal years 1995 and 1996. Any adjustments should be reflected in the financial records and reports of DOF.
3. Correct the transaction errors posted by DOF to WRO housing allowance account #6120, and adjust any financial management reports reflecting data resulting from recording the errors.
4. Establish and implement a policy requiring that transactions recorded in the WRO accounting system and the DOF accounting system be periodically reconciled.

We recommended that the Washington Representative issue a directive:

5. Requiring WRO personnel to comply with CNMI personnel policies and procedures for excepted service employees with regard to employment conditions, leave policy, position qualification requirements, and other personnel administration requirements, unless deviations are specifically authorized.
6. Informing WRO personnel that all employment contracts shall cover not one year but two years subject to availability of funds, and shall include provisions that repatriation benefits will accrue only upon completion of the two-year contract and that any employee who receives repatriation benefits upon expiration or termination of a contract shall not be eligible for expatriation benefits under a new contract within six months of that expiration or termination.
7. Requiring WRO employees receiving housing allowance to provide WRO with documents (e.g., copy of lease agreement) demonstrating the actual cost of housing, and informing employees that they will be reimbursed only for actual housing costs not exceeding the maximum amount established by WRO.
8. Instructing the WRO Fiscal Officer to compute budget estimates for housing allowance based on the projected number of employees receiving housing allowance.
9. Requiring WRO administrative staff to use DOF's Master Leave Report as a management tool for authorizing leave, particularly when advance leave is requested.

We recommended that the Secretary of Finance instruct the Director of Finance and Accounting to:

10. Review and reconcile all outstanding travel encumbrances with a view toward determining which travel has been completed and what encumbrances can be eliminated and charged to travel expense.
11. Insist that actual dunning action be taken and deductions from salaries implemented on all future travel advances when travel vouchers are not submitted in a reasonable amount of time after completion of the travel.

We recommended that the Washington Representative:

12. Issue a written directive to the WRO Fiscal Officer to reduce the amount of travel advance to 80 percent of the total estimated per diem and other expenses shown on the travel authorization, to refuse further issuance of a travel authorization to an employee who has not submitted a travel voucher to liquidate an outstanding travel advance, and to record travel advances in WRO's accounting system as a receivable and not as an expense.
13. Issue a written directive to the Fiscal Officer that any future procurement of goods and services should adhere to all requirements specified in the CNMI Procurement Regulations, and that the extent of effort to secure competition be documented in the files.
14. Issue a written directive to WRO staff requiring that the use of representational funds be restricted solely for representational purposes, and that these purposes be clearly identified and approved prior to the expenditure of representational funds.
15. Continue his efforts to collect the outstanding loan until such time as he is assured that any further collection efforts would be futile. At that time, the loan documentation should be turned over to the Department of Finance in Saipan for further action. If the obligation is collected, the amount should be returned to the CNMI General Fund.

In her letter response dated November 30, 1998, the Secretary of Finance stated that DOF has taken corrective measures that address the recommendations. Copies of the Secretary's directives implementing the corrective measures on travel were attached to the response. Based on the response, we consider all six recommendations addressed to DOF closed.

In his letter response dated January 4, 1999, the Washington Representative agreed with the recommendations and stated that WRO had implemented some of the recommendations and would implement the others as soon as possible. Copies of the Washington Representative's directives and other supporting documentation showing corrective actions taken were attached

to the response. Based on the response, we consider six recommendations resolved and three recommendations closed. The additional information or action required to consider the recommendations closed is presented in **Appendix B**.

Sincerely,



Leo L. LaMotte  
Public Auditor, CNMI

cc: Governor  
Lt. Governor  
Tenth CNMI Legislature (27 copies)  
Attorney General  
Special Assistant for Management and Budget  
Public Information Officer  
Press



# Office of the Public Auditor

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April 1, 1999

The Honorable Juan N. Babauta  
Resident Representative  
Office of the Resident Representative to the United States  
for the Commonwealth of the No. Mariana Islands  
2121 R Street, NW  
Washington, D.C. 20008

and

Ms. Lucy Dlg. Nielsen  
Secretary, Department of Finance  
Capitol Hill  
Saipan, MP 96950

Dear Representative Babauta and Secretary Nielsen:

**Subject: Final Audit Report on the Verification of Expenses and Review of Selected Administrative Practices of the Washington Representative's Office for Fiscal Years 1995 and 1996 (Report No. AR-99-02)**

This letter is being issued to change the **OPA Comments** and the section of **Appendix B** pertaining to audit recommendation no. 15 in the recently issued final audit report on the Verification of Expenses and Review of Selected Administrative Practices of the Washington Representative's Office (WRO) for Fiscal Years 1995 and 1996. The report was released by OPA on March 29, 1999. Additional information that came to our attention after the release of the report required a change in the status of audit recommendation 15.

The section **OPA Comments** on page 20 of the report is corrected as follows:

The Washington Representative's response to recommendation 15 did not properly address the finding. The finding pertained to the outstanding \$2,500 emergency loan granted on April 11, 1996 by WRO to a relative of a WRO employee. The Representative's response did not provide the status of this \$2,500 loan, but instead, mistakenly provided the status of a \$1,080.25 loan provided by WRO to a different party on March 11, 1996. The \$1,080.25 loan was not included among our findings as the loan transaction was not one of the sample disbursements randomly selected for audit testing.

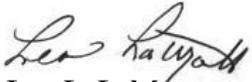
The Washington Representative should submit a response addressing recommendation 15. The response should state the current status of the \$2,500 loan and should include copies of documents evidencing the actions made to collect the loan or the actual receipt of payment. With regard to the \$1,080.25 loan, WRO should also provide OPA with copies of documents showing collection of the \$650.25 balance.

Additionally, WRO should provide OPA with copies of referral letters to DOF and Attorney General requesting legal action if the outstanding balances of the \$2,500 and \$1,080.25 loans are still not paid by this time.

Based on WRO's response, we consider recommendation 14 closed and recommendation 15 open. The additional information or action required to close recommendation 15 is presented in **Appendix B**.

A correction was made to **Appendix B** under the column "Agency Response/Additional Information or Action Required" for recommendation no. 15 on page 38. The attached revised page of **Appendix B** (which should be inserted in the final audit report to replace page 38) is being provided to all previous recipients of the audit report.

Sincerely,



Leo L. LaMotte  
Public Auditor, CNMI

cc: Governor  
Lt. Governor  
Eleventh CNMI Legislature (27 copies)  
Attorney General  
Special Assistant for Management and Budget  
Public Information Officer  
Press

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**O**ur review of the financial transactions of the Washington Representative's Office (WRO) for fiscal years 1995 and 1996 disclosed discrepancies in the totals of some expense accounts reflected in the books of the CNMI Department of Finance (DOF) and those reflected in the books of WRO. These discrepancies were caused by errors and misclassification in the recording of expenditures. The errors and misclassification were not detected and corrected by DOF because DOF did not have procedures to reconcile the amounts recorded in WRO and DOF books.

Our review of selected administrative practices of WRO disclosed a need for WRO to improve or correct its procedures and establish more effective controls over repatriation and expatriation benefits, housing benefits, annual leave benefits, maintenance of necessary personnel records like descriptions of the qualifications necessary for each employment position, travel advances, procurement, and use of representational funds. Poor control or erroneous procedures over these activities could have been avoided or minimized had WRO adhered to the CNMI Personnel Rules and Regulations for Excepted Service Employees, CNMI Travel Regulations, CNMI Procurement Regulations, and other applicable CNMI policies, procedures, and guidelines.

**Background**

The Office of the Representative to the United States for the Commonwealth of the Northern Mariana Islands (CNMI) was created by Article V of the CNMI Constitution in conjunction with Article IX, Section 901 of the Covenant to establish a Commonwealth in Political Union with the United States.

WRO is under the direct supervision of an elected Representative with a four-year term of office. The Washington Representative represents the government and people of the CNMI before (1) the Congress of the United States, (2) departments and agencies of federal and state governments, and (3) other public and private organizations on all matters pertaining to the CNMI.

WRO maintains offices in both Wash-

ington, D.C. and the CNMI. WRO has employees in both offices numbering 14 ungraded positions. WRO is funded through annual appropriations by the CNMI Legislature. The annual budget of WRO is about \$1.1 million. Funds appropriated for the operations of WRO are transferred by the CNMI Department of Finance (DOF) in Saipan to the WRO checking account at the Riggs National Bank in Washington, D.C. These funds are expended and accounted for by WRO. All expenses incurred by WRO are paid in Washington, except the salaries of WRO employees posted in the CNMI and all payroll liabilities (e.g., withholding taxes, retirement contributions, Medicare, and life insurance premiums), which are paid directly by DOF. WRO and DOF maintain separate accounting records of WRO transactions. The WRO account-

Expenses recorded by DOF were in some cases recorded twice or recorded in error, and generally were not in agreement with the expense category totals recorded by WRO. As a result, expenses were overstated and misclassified, and the balance of amounts appropriated to WRO but not expended by the end of the fiscal year was in error.

ing system records (1) all transfers of funds received from DOF, and (2) all WRO payments and withdrawals dispensed from the WRO checking account, while the DOF accounting system records all transactions processed by both WRO and DOF. For transactions processed by WRO, WRO forwards to DOF all original accounting documents, checks, invoices, vouchers, etc. for posting to the DOF accounting system; WRO retains copies of these documents. DOF maintains the official record for all financial transactions and financial reports relating to WRO.

### Objectives and Scope

This review was undertaken to determine whether (1) funds transferred to WRO were properly controlled and accounted for; (2) expenditures were adequately documented, recorded, and considered reasonable and (3) selected management practices were effective, efficient and economical. The review covered financial transactions and administrative activities occurring during the fiscal year periods ending September 30, 1995 and September 30, 1996.

### Accounting for Funds Transferred

The total amount appropriated by the Legislature for the operations of WRO for fiscal years 1995 and 1996 was \$2.2 million. Some funds were retained by the Department of Finance in Saipan to pay the salaries of WRO employees posted in the CNMI and to pay for WRO's payroll liabilities. A total of \$1.3 million was transferred in fiscal years 1995 and 1996 to WRO's bank account to pay for expenses incurred in carrying out the purposes of WRO.

Our review and analysis showed that all

of the money transferred to WRO was properly accounted for as expended or in the bank.

### Verification of WRO Expenses

We tested and verified with supporting documents \$180,344 of incurred expenses paid by WRO during fiscal years 1995 and 1996. In our opinion, expenses paid were (1) consistent with the functions of WRO, (2) supported by adequate documentation, and (3) in compliance with the budget approved by the CNMI Legislature.

### Inaccurate Expense Recordings

We compared the expenses recorded by WRO with the expenses recorded by the Department of Finance and found discrepancies. Expenses recorded by DOF in Saipan were in some cases recorded twice or recorded in error, and generally were not in agreement with the expense category totals recorded by WRO in Washington. As a result, expenses were overstated and misclassified, and the balance of amounts appropriated to WRO but not expended by the end of the fiscal year was in error.

We attribute this to a failure on the part of DOF in Saipan to periodically reconcile the expense transactions recorded by WRO in Washington with the expense transactions recorded by DOF in Saipan. The Department needs to correct these errors. To avoid future distortions, we believe, periodic reconciliations of expenses recorded by WRO and DOF should be required.

### Administrative and Management Practices

The Washington Representative is an

elected official and does not use a policy manual or handbook to provide guidelines for carrying out WRO's day-to-day administrative and management functions. We were advised by WRO that it is not subject to the administrative and management policies established by the Government of the CNMI. However, while the CNMI Constitution exempts WRO staff from the CNMI civil service, we could not find any basis or foundation for WRO to be exempt from CNMI travel, procurement, and other administrative functions including personnel regulations for excepted service employees.

In the absence of written policies, it is difficult to establish criteria for measuring the effectiveness with which administrative and management practices are implemented. We found that:

- Employees of WRO assigned in Washington were given excessive expatriation/repatriation benefits;
- Employees of WRO assigned in Washington were given higher annual leave benefits than employees of WRO assigned in the CNMI;
- Employees of WRO entitled to housing benefits were given the maximum housing allowance even if the allowance exceeded the actual housing cost of some employees;
- There was no description of the qualifications necessary for each employment position;
- WRO did not maintain effective oversight of employee leave balances;
- Travel advances were incorrectly

recorded in Washington as an expense, and travel vouchers were sometimes not submitted by WRO employees and at other times were submitted two or more years after the completion of travel;

- WRO did not adhere to the competitive selection method of procuring services as required by the CNMI procurement regulations; and
- WRO used its representational funds for other than representation expenses, such as using it to make a \$2,500 loan to a supposedly needy CNMI citizen who is a relative of a WRO employee and currently living in the continental United States.

## **Conclusion and Recommendations**

In our view, periodic reconciliations of accounting transactions between WRO and the Department of Finance in Saipan will preclude many of the accounting errors discussed in this report.

We recommend that the Secretary of Finance require the Director of Finance and Accounting at DOF to:

1. Provide WRO in Washington with an updated chart of accounts, and assure that any deviations by WRO from the official cost category descriptions are first cleared with DOF in Saipan.
2. Prepare a reconciliation between expenses recorded by WRO and expenses recorded by DOF in Saipan for fiscal years 1995 and 1996. Any adjustments should be

reflected in the financial records and reports of DOF.

3. Correct the transaction errors posted by DOF to WRO housing allowance account #6120, and adjust any financial management reports reflecting data resulting from recording the errors.
4. Establish and implement a policy requiring that transactions recorded in the WRO accounting system and the DOF accounting system be periodically reconciled.

We recommend that the Washington Representative issue a directive:

5. Requiring WRO personnel to comply with CNMI personnel policies and procedures for excepted service employees with regard to employment conditions, leave policy, position qualification requirements, and other personnel administration requirements, unless deviations are specifically authorized.
6. Informing WRO personnel that all employment contracts shall cover not one year but two years subject to availability of funds, and shall include provisions that repatriation benefits will accrue only upon completion of the two-year contract and that any employee who receives repatriation benefits upon expiration or termination of a contract shall not be eligible for expatriation benefits under a new contract within six months of that expiration or termination.
7. Requiring WRO employees receiving housing allowance to provide

WRO with documents (e.g., copy of lease agreement) demonstrating the actual cost of housing, and informing employees that they will be reimbursed only for actual housing costs not exceeding the maximum amount established by WRO.

8. Instructing the WRO Fiscal Officer to compute budget estimates for housing allowance based on the projected number of employees receiving housing allowance.
9. Requiring WRO administrative staff to use DOF's Master Leave Report as a management tool for authorizing leave, particularly when advanced leave is requested.

We recommend that the Secretary of Finance instruct the Director of Finance and Accounting to:

10. Review and reconcile all outstanding travel encumbrances with a view toward determining which travel has been completed and what encumbrances can be eliminated and charged to travel expense.
11. Insist that actual dunning action be taken and deductions from salaries implemented on all future travel advances when travel vouchers are not submitted in a reasonable amount of time after completion of the travel.

We recommend that the Washington Representative:

12. Issue a written directive to the WRO Fiscal Officer to reduce the amount of travel advance to 80

percent of the total estimated per diem and other expenses shown on the travel authorization, to refuse further issuance of a travel authorization to an employee who has not submitted a travel voucher to liquidate an outstanding travel advance, and to record travel advances in WRO's accounting system as a receivable and not as an expense.

13. Issue a written directive to the Fiscal Officer that any future procurement of goods and services should adhere to all requirements specified in the CNMI Procurement Regulations, and that the extent of effort to secure competition be documented in the files.
14. Issue a written directive to WRO staff requiring that the use of representational funds be restricted solely for representational purposes, and that these purposes be clearly identified and approved prior to the expenditure of representational funds.
15. Continue his efforts to collect the outstanding loan until such time as he is assured that any further collection efforts would be futile. At that time, the loan documentation should be turned over to the Department of Finance in Saipan for further action. If the obligation is collected, the amount should be returned to the CNMI General Fund.

### **DOF Response**

In her letter response dated November 30, 1998, the Secretary of Finance stated that DOF has taken corrective measures that address the recommendations. Copies of the Secretary's directives implementing the corrective measures on travel were attached to the response.

### **WRO Response**

In his letter response dated January 4, 1999, the Washington Representative agreed with the recommendations and stated that WRO had implemented some of the recommendations and would implement the others as soon as possible. Copies of the Washington Representative's directives and other supporting documentation showing corrective actions taken were attached to the response.

### **Office of the Public Auditor Comments**

Based on the responses we received from DOF and WRO, we consider six recommendations resolved (recommendation numbers 5 through 9, and 15), and nine recommendations closed (recommendation numbers 1 through 4, and 10 through 14).

The additional information or action required to consider the recommendations closed is presented in **Appendix B**.

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# Introduction

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## Background

The Office of the Representative to the United States for the Commonwealth of the Northern Mariana Islands (CNMI) was created by Article V of the CNMI Constitution in conjunction with Article IX, Section 901 of the Covenant to establish a Commonwealth in Political Union with the United States. It is commonly known as the Washington Representative's Office (WRO). WRO is under the direct supervision of an elected Representative with a four-year term of office. The Washington Representative represents the government and people of the CNMI before (1) the Congress of the United States, (2) departments and agencies of federal and state governments, and (3) other public and private organizations on all matters pertaining to the CNMI.

WRO maintains offices in both Washington, D.C. and the CNMI, which are located in Washington, D.C. at 2121 R Street, and in Saipan at the Legislature Building, respectively. WRO is funded through annual appropriations by the CNMI Legislature. The annual budget of WRO is about \$1.1 million. Allotments are transferred by the Department of Finance (DOF) in Saipan to the Riggs National Bank in Washington, D.C. Except for salaries of WRO employees posted in the CNMI office and all payroll liabilities (e.g., withholding taxes, retirement contributions, Medicare, and life insurance premiums), which are paid directly by DOF, all other expenses of WRO are paid by the WRO Washington office. The official records of expenditures and obligations are maintained by DOF in Saipan.

WRO is an independent constitutional office and is not considered to be a part of the Executive, Legislative, or Judicial branch of the CNMI Government. WRO has 14 ungraded positions in addition to the Washington Representative. Under the CNMI Constitution (Article 5, Section 5), the staff of WRO is exempt from the civil service. The Representative is required by law to submit an annual report to the Governor and the Legislature describing his official activities and WRO expenditures, outstanding obligations, and status of funds as of the end of the fiscal year. The Representative is also required to deliver a *State of the Washington Representative's Office Report* before a joint session of the Legislature.

## Objectives, Scope, and Methodology

This review was undertaken to determine whether (1) funds transferred to WRO were properly controlled and accounted for, (2) expenditures were adequately documented, recorded, and considered reasonable, and (3) selected management practices were effective, efficient and economical. The review covered financial transactions and administrative activities occurring during the fiscal year periods ending September 30, 1995 and September 30, 1996.

We examined financial records and discussed financial matters with officials at the Washington Representative's Office and at the CNMI Department of Finance in

Saipan. We also analyzed and discussed selected administrative policies and practices used by WRO and compared such practices to CNMI policies when applicable. Our work was performed at the Representative's Office in Washington D.C. and at the CNMI Department of Finance in Saipan. Review work was completed in February 1997.

We conducted our audit, as applicable, in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as were considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our conclusion.

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**Prior Audit  
Coverage**

The Office of the Public Auditor has issued six audit reports covering the operations of WRO from fiscal year 1987 to fiscal year 1992.

# Findings and Recommendations

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## A. Accounting Controls and Expense Verification

Our comparison of expense transactions recorded by WRO and DOF disclosed discrepancies in the totals of some expense accounts reflected in the books of DOF and those reflected in the books of WRO.

The Washington Representative's Office (WRO) has employees in Washington and the CNMI. Funds appropriated for the operations of WRO are transferred by the Department of Finance (DOF) in Saipan to the WRO checking account at the Riggs National Bank in Washington, D.C. These funds are used to pay WRO expenses. The WRO accounting system records (1) all transfers of funds received from DOF, and (2) all WRO payments and withdrawals dispensed from WRO's checking account. All WRO expenses are paid by WRO in Washington, except the salaries of WRO employees posted in the CNMI and all payroll liabilities (e.g., withholding taxes, retirement contributions, Medicare, and life insurance premiums), which are paid directly by DOF. Amounts withheld from employees' salaries are remitted to the appropriate entities by DOF.

Original accounting documents, checks, invoices, vouchers, etc. are forwarded by WRO to DOF in Saipan for posting of transactions to the DOF accounting system. Copies of original records are retained at WRO. The official records for all financial transactions and financial reports relating to the Washington Representative's Office are maintained by DOF in Saipan.

Our review of the financial transactions of WRO for fiscal years 1995 and 1996 showed that funds transferred by DOF to WRO were properly accounted for as expended or retained on deposit in WRO's checking account; and that expenses incurred and paid were consistent with the functions of WRO, supported by adequate documentation, and generally in compliance with the budget approved by the CNMI legislature. Our comparison of expense transactions recorded by WRO and DOF in Saipan, however, disclosed discrepancies between the totals of some expense accounts reflected in the books of DOF and those reflected in the books of WRO. These discrepancies were caused by errors and misclassification in the recording of expenditures. The errors were not detected and corrected by DOF because DOF did not have procedures to reconcile the amounts recorded in WRO and DOF books.

### 1. Accounting for Funds Transferred

In fiscal year 1995, \$1,142,300 was appropriated to WRO for personnel costs and other expenses. After reprogramming actions, the final amount budgeted was \$1,036,515.

In fiscal year 1996, WRO operated under continuing resolution authority which totaled \$1,142,300. Reprogramming actions during the year did not result in any fund reductions.

The status of funds appropriated by the Legislature for WRO is shown below:

Description	Amount Appropriated	Budget Adjustment	Amount Expended	Unpaid Encumbrance	Balance
<u>FISCAL YEAR 1995</u>					
Personnel Costs	\$ 700,915	\$ 0	\$ 639,432	\$ 0	\$ 61,483
Other Expenses	<u>335,600</u>	<u>3,072</u>	<u>296,142</u>	<u>35,290</u>	<u>7,240</u>
TOTAL	<u>\$ 1,036,515</u>	<u>\$ 3,072</u>	<u>\$ 935,574</u>	<u>\$ 35,290</u>	<u>\$ 68,723</u>
<u>FISCAL YEAR 1996</u>					
Personnel Costs	\$ 828,400	\$ 0	\$ 745,786	\$ 0	\$ 82,614
Other Expenses	<u>313,900</u>	<u>31,495</u>	<u>323,514</u>	<u>72,297</u>	<u>(50,416)</u>
TOTAL	<u>\$ 1,142,300</u>	<u>\$ 31,495</u>	<u>\$ 1,069,300</u>	<u>\$ 72,297</u>	<u>\$ 32,198</u>
<p><b>Source:</b> Figures were obtained from data provided by DOF in Saipan.</p> <p><b>Note:</b> Amounts expended are shown prior to adjustments resulting from the audit findings discussed in this report. Significant adjustments must be made to expense account #6120 (Housing Allowance) because of posting errors. Also, amounts reflected as encumbrances which relate to travel may have been completed but the advance creating the encumbrance was never liquidated. We were advised by the Director of Finance and Accounting at DOF that these matters would be addressed and resolved in keeping with our audit recommendations.</p>					

Our analysis of the status of funds transferred to WRO during fiscal years 1995 and 1996 is shown below:

Period	Total Budgeted	Transferred to Washington	Beginning Bank Balance	Washington Outflows	Ending Bank Balance
FY 1995	\$1,036,515	\$ 612,632	\$103,274	\$ 697,548	\$18,358
FY 1996	<u>1,142,300</u>	<u>727,523</u>	18,358	<u>745,027</u>	854
Total	<u>\$2,178,815</u>	<u>\$1,340,155</u>		<u>\$1,442,575</u>	

We examined fund transfers, bank statements, and accounting records. Funds not transferred by DOF to WRO’s checking account are retained in Saipan and used to pay the salaries of WRO employees posted in the CNMI and WRO’s payroll liabilities.

On the basis of our analysis, we believe funds transferred to WRO were properly accounted for as expended or retained on deposit in WRO’s checking account.

## 2. Verification of WRO Expenses

As recorded by DOF, total expenses incurred in carrying out the functions of WRO in fiscal years 1995 and 1996 totaled \$2,004,874. We reviewed documentation supporting \$180,344 in personnel costs and other expenses as shown below:

Description	Total Expense (b)	Expense Percent	Amount Tested	Percent Tested
<b>Fiscal Year 1995</b>				
Personnel Costs (a)	\$ 639,432	68	\$ 43,286	7
Other Expenses	<u>296,142</u>	<u>32</u>	<u>52,003</u>	18
Subtotal	<u>\$ 935,574</u>	<u>100</u>	<u>\$ 95,289</u>	10
<b>Fiscal Year 1996</b>				
Personnel Costs (a)	\$ 745,786	70	\$ 40,387	5
Other Expenses	<u>323,514</u>	<u>30</u>	<u>44,668</u>	14
Subtotal	<u>\$1,069,300</u>	<u>100</u>	<u>\$ 85,055</u>	8
<b>GRAND TOTAL</b>	<u><u>\$2,004,874</u></u>	<u><u>100</u></u>	<u><u>\$ 180,344</u></u>	9
(a)	Personnel costs include salaries, retirement contributions, life and health insurance premiums, and housing allowances			
(b)	Reflects total expenses for the Washington Representative's Office as reflected in the DOF General Fund expenditures report for fiscal years 1995 and 1996			

In our opinion, expenses incurred and paid were (1) consistent with the functions of WRO, (2) supported by adequate documentation, and (3) generally in compliance with the budget approved by the CNMI legislature.

## 3. Inaccurate Expense Recordings

Expenses recorded by DOF in Saipan were in some cases recorded twice or recorded in error, and generally were not in agreement with the expense category totals recorded by WRO in Washington. As a result, expenses were overstated and misclassified, and the balance of amounts appropriated to WRO but not expended by the end of the fiscal year was in error. We attribute this to a failure on the part of DOF in Saipan to periodically reconcile the expense transactions recorded by WRO in Washington with the expense transactions recorded by DOF in Saipan.

In fiscal year 1996, DOF used 25 different expense categories to record WRO expenses. At the same time, WRO used only 23 expense categories. We also noted that amounts recorded in the expense accounts at DOF in Saipan seldom agreed with the amounts recorded in the same expense accounts at the Washington office. In some cases, this may be attributed to a different perspective on the nature of the expense. In other cases, the amounts recorded by DOF were in error. For example,

the cost category account #6120, housing allowance, showed a total cost in fiscal year 1996 of \$99,817.54 as recorded by DOF in Saipan, while the amount recorded by WRO in Washington was \$66,118.80. Our analysis of the account at DOF showed that seven payments to various vendors totaling \$7,779 were posted to the housing allowance account even though the payments were unrelated to housing or to WRO. In addition, amounts posted were sometimes duplicated because they were entered in the cost category account as an amount representing the full allowance paid, as was proper, and entered again as an amount representing the net amount paid the employee for housing after deducting withholding taxes, which was not appropriate.

FY 1996 Expense Category	Washington Office	DOF Saipan	Difference
#6212 - Communications	\$39,372.13	\$41,040.14	\$1,668.01
#6213 - Dues & Subscriptions	3,646.80	3,775.80	129.00
#6304 - Supplies-office	7,097.48	7,506.81	409.33

Other examples of recorded expenses showing variance between those recorded by WRO in Washington and those recorded by DOF in Saipan are shown in **Table 1**.

Table 1 Comparison of Recorded Expenses

### Conclusion and Recommendations

In our view, the expense categories used by WRO in Washington should be consistent with the expense categories used by DOF in Saipan. We believe a policy should be established requiring periodic reconciliations of expenses recorded by WRO and DOF.

Accordingly, we recommend that the Secretary of Finance require the Director of Finance and Accounting at DOF to:

1. Provide WRO in Washington with an updated chart of accounts, and assure that any deviations by WRO from the official cost category descriptions are first cleared with DOF in Saipan.
2. Prepare a reconciliation between expenses recorded by WRO and expenses recorded by DOF in Saipan for fiscal years 1995 and 1996. Any adjustments should be reflected in the financial records and reports of DOF.
3. Correct the transaction errors posted by DOF to WRO housing allowance account #6120, and adjust any financial management reports reflecting data resulting from recording the errors.
4. Establish and implement a policy requiring that transactions recorded in the WRO accounting system and the DOF accounting system be periodically reconciled.

### **DOF Response**

The response of the Secretary of Finance to recommendations 1 to 4 are as follows:

Recommendation 1 - The Washington Representative's Office (WRO) activated the JD Edwards System in its Washington Office in September 1998. Therefore, the WRO will be using the official cost category established in the financial management system.

Recommendation 2 - The audit reports for fiscal years 1995 and 1996 have been issued and actual adjustments are not possible.

Recommendation 3 - The audit report for fiscal year 1996 has been issued and adjustments recommended in the OPA draft audit report would not be possible and considered immaterial in an audit test.

Recommendation 4 - The WRO went on-line in September 1998. Since they are entering their transactions directly into the financial management system, no reconciliation with DOF is necessary.

### **OPA Comments**

Based on DOF's response, we consider recommendations 1 to 4 closed.

## B. Administrative and Management Practices

Although WRO maintains that it is not subject to administrative and management policies established by the CNMI, we could not find any basis or foundation for WRO to be exempt from CNMI travel, procurement, and other administrative functions including personnel regulations for excepted service contract employees.

The Washington Representative is an elected official and does not use a policy manual or handbook to provide guidelines for carrying out WRO's day-to-day administrative and management functions. We were advised by WRO that it is not subject to the administrative and management policies established by the Government of the CNMI. However, while the CNMI Constitution exempts WRO staff from the CNMI civil service, we could not find any basis or foundation for WRO to be exempt from CNMI travel, procurement, and other administrative functions including personnel regulations for excepted service contract employees.

In the absence of written policies, it is difficult to establish criteria for measuring the effectiveness with which administrative and management practices are implemented. We found that:

- Employees of WRO assigned in Washington were given excessive expatriation/repatriation benefits;
- Employees of WRO assigned in Washington were given higher annual leave benefits than employees of WRO assigned in the CNMI;
- Employees of WRO entitled to housing benefits were given the maximum housing allowance even if the allowance exceeded the actual housing cost of some employees;
- There was no description of the qualifications necessary for each employment position;
- WRO did not maintain effective oversight of employee leave balances;
- Travel advances were incorrectly recorded in Washington as an expense, and travel vouchers were sometimes not submitted by WRO employees and at other times were submitted two or more years after the completion of travel;
- WRO did not adhere to the competitive selection method of procuring services as required by the CNMI Procurement Regulations; and
- WRO used its representational funds for other than representation expenses, such as using it to make a \$2,500 loan to a supposedly needy CNMI citizen who is a relative of a WRO employee and currently living in the continental United States.

In our view, an administrative handbook would provide a foundation for conducting administrative activities in a consistent manner, provide specific reference to CNMI

regulations applicable to WRO administrative functions, and allow WRO management to hold employees accountable for violations of written administrative practices. These matters are discussed below in greater detail.

## 1. Conditions of Employment

WRO employees are hired under a one-year contract which is renewable at the pleasure of the Washington Representative. The Conditions of Employment and a description of the employee's duties and responsibilities are attached to an employment contract. These conditions describe the compensation process, work schedule, leave policy, insurance benefits, employee taxes, travel, contract renewal conditions, early termination or resignation policy, housing benefits, and expatriation and repatriation benefits. The employment contract specifies the period of employment, defines the employee's position title and salary, and identifies the employee's duty station (i.e., Washington or Saipan). Our analysis of the Conditions of Employment, the Employment Contract and the Notification of Personnel Action form showed that employees working in Washington were given excessive expatriation/repatriation benefits and excessive annual leave benefits, and were paid the maximum housing allowance even if it exceeded the actual housing cost. We also found that WRO did not have a description of the qualifications required for each employment position.

### *Expatriation/Repatriation Benefits*

On completion or annual renewal of the Employment Contract, an employee and his/her dependents are provided air transportation from the employee's duty station to the point of recruitment. If an employee renews the contract but opts not to go back to the point of recruitment, he/she loses that entitlement under the first contract.

Providing round trip air transportation upon contract renewals gives WRO employees and their families an opportunity to return to the CNMI at government expense after each one-year contract. This practice is inconsistent with the CNMI policy abolishing home leave benefits. The Conditions of Employment for Excepted Service employees working for the CNMI government provide that *"Excepted service employees who are initially hired after July 1, 1983 shall not be entitled to home leave benefits upon renewal of their contract. Any employee who receives repatriation benefits upon expiration or termination of a contract shall not be eligible for expatriation benefits under a new contract within six (6) months of that expiration or termination."*

WRO's practice of granting annual home leave benefits is not only inconsistent with the CNMI's policy, but excessive even in comparison with home leave benefits granted by the Federal government. United States government employees serving in overseas locations are generally provided home leave benefits every two years.

WRO should follow the CNMI policy prohibiting the granting of home leave benefits to government employees. Also, we believe that WRO should execute a two-year instead of a one-year employment contract, with the provision that

repatriation benefits will accrue only upon completion of the two-year contract. This will be more cost effective since WRO employees will have to render at least two years of service before becoming entitled to repatriation benefits. Additionally, requiring a minimum of two years work will minimize the risk of quick employee turnovers because it will discourage prospective applicants who are not really committed to work at WRO for a reasonable length of time. In response to this suggestion, we were advised by the Washington Representative that because of an annual budget process, he could not commit to a contract beyond one year. He also said the practice of a yearly contract has been carried over from his predecessor and *“...without an administrative manual to guide the office, it was the logical thing to continue practicing.”* We believe, however, that the annual budget process or even the absence of a current appropriation should not preclude WRO from continuing the employment of its contract employees since funding under the continuing resolution provides adequate assurance that contractual obligations will be honored. It is possible for WRO to commit to a two-year contract, which is what several government agencies in the CNMI have been doing by inserting in the contract the words “subject to availability of funds” or similar language.

Air transportation should not be provided to employees going to the CNMI under the guise of repatriation. Since a renewal is processed before expiration of the current contract, an employee knows beforehand that he/she will have continued employment at WRO, and therefore has no reason to ask for repatriation upon completion of his/her current contract. Renewal of contracts should not be planned in order to pay home leave type expenses in circumvention of laws eliminating home leave benefits.

### **Annual Leave Benefits**

The policy of the CNMI government in granting annual leave benefits to government employees is as follows: Every pay period, four hours shall be earned by employees with less than three years of creditable service, six hours by employees with less than six years of creditable service, and eight hours by employees with more than six years of creditable service. WRO’s policy of granting annual leave is not consistent with this policy. Of 14 WRO employees, 11 received eight hours of annual leave every pay period from the inception of their employment contract. While a few employees started with four hours of annual leave, most started with six or eight hours of annual leave. We were advised by the Washington Representative that his previous discussions with the CNMI Office of Personnel Management indicated a more liberal application of leave for contract employees than for civil service employees. He explained that employees working in Washington receive more hours of leave than those employees working for WRO in the CNMI because of the hardship conditions imposed on employees working away from the “island”. In our view, this justification is not acceptable considering that most expatriate U.S. citizens working in the CNMI (with the exception of hard-to-fill positions like doctors and lawyers) have to start with four hours of annual leave just like local-hire employees. The annual leave credits granted to WRO employees should be in accordance with the CNMI policy of granting annual leave to government employees. The

inconsistent application of leave levels could give the perception of special treatment, which may give rise to discrimination grievances.

**Housing Allowance**

In fiscal years 1995 and 1996, housing allowances paid to employees totaled about \$67,000 and \$66,000, respectively. The Conditions of Employment indicate which employees are eligible to receive a housing allowance. According to the Washington Representative, only those employees whose point of hire is the CNMI receive

Location	Number of Employees	Employees Receiving Housing Allowance
Washington	9	6
Saipan	5	0
Total	14	6

Table 2 Employees with Housing Allowance

housing allowance. Based on our analysis of the 14 employees currently employed by WRO, there were six employees receiving a housing allowance. The Conditions of Employment contain a clause for those employees receiving the allowance which provides for an employee to receive *a housing allowance in the amount of \$1,100 per month payable in advance on the first day of the month during the term of this contract.*

We were advised by WRO management that if an employee’s actual cost of housing is in excess of the allowance (\$13,200 a year), the employee must bear the additional cost of housing. Conversely, if the housing cost is less than the \$13,200 a year provided, the employee retains the excess housing allowance. In our view, to ensure equitable treatment of all employees and to avoid potential sub-standard housing conditions, each employee receiving a housing allowance should be paid the actual cost of housing up to the established limit. We were advised by the Washington Representative that “to get a decent housing/apartment, the amount of \$1,100 per month is simply not enough.”

We also found that the budget for housing allowance as submitted by the Washington Representative was based on all 14 employees receiving an allowance. This included those employees posted in Saipan. That is, the yearly amount requested for fiscal years 1995 and 1996 was \$193,200 (14 employees @ \$1,150 for 12 months). The amount actually appropriated was \$126,000 for each of the two fiscal years. As previously pointed out only 6 of the 14 employees are authorized to receive a housing allowance. Consequently, the amounts appropriated for housing allowance costs were overstated by about \$60,000 for each of the two fiscal years.

**Employment Position Qualifications**

The employee’s position title and a description of his/her duties and responsibilities were available in the personnel folder, but we could not locate a description of the qualifications necessary for each position or information describing the qualifications of the employees currently occupying these positions. The Washington Representative advised us that he does not have a description of the qualifications required for each position because he uses as a guideline the general qualifications found in the CNMI Office of Personnel Management’s Government manual. He also said that some but not all employee résumés are on file with WRO.

## Conclusion and Recommendations

In our view, a two-year instead of a one-year employment contract would result in significant cost savings to the CNMI Government. With regard to employment conditions, we believe WRO should follow CNMI personnel policies and procedures. Further, actual housing costs up to a specified limit should be paid to those eligible employees, and the budget submission should be based on a more realistic projection of housing allowance costs. We also believe a qualification requirement for each WRO employment position should be prepared, and the qualifications of staff occupying these positions should be made a part of the personnel files. Accordingly, we recommend that the Washington Representative issue a directive:

5. Requiring WRO personnel to comply with CNMI personnel policies and procedures for excepted service employees with regard to employment conditions, leave policy, position qualification requirements, and other personnel administration requirements, unless deviations are specifically authorized.
6. Informing WRO personnel that all employment contracts shall cover not one year but two years subject to availability of funds, and shall include provisions that repatriation benefits will accrue only upon completion of the two-year contract and that any employee who receives repatriation benefits upon expiration or termination of a contract shall not be eligible for expatriation benefits under a new contract within six months of that expiration or termination.
7. Requiring WRO employees receiving housing allowance to provide WRO with documents (e.g., copy of lease agreement) demonstrating the actual cost of housing, and informing employees that they shall be reimbursed for actual housing costs not exceeding the maximum amount established by WRO.
8. Instructing the WRO Fiscal Officer to compute budget estimates for housing allowance based on the projected number of employees receiving housing allowance.

### WRO Response

Recommendation 5 - the Washington Representative agreed with the recommendation and stated that WRO has adopted in general the CNMI personnel policies and procedures for excepted service employees. With regard to annual leave benefits, the Washington Representative stated that he would see to it that WRO follows the CNMI's policy of granting leave credits based on creditable service years (i.e., four hours of annual leave credits to employees with less than three years of creditable service, six hours to employees with less than six years of creditable service, and eight hours to employees with more than six years of creditable service).

Recommendation 6 - the Washington Representative agreed that excepted service employees should not receive home leave benefits upon renewal of their contract, but maintained that he must be allowed to exercise discretion with regard to the period covered by the employment contract. He stated that the one-year contract adopted by WRO since 1990 works effectively, and that he'd rather give an unproductive employee his repatriation benefit than let the employee complete a two-year contract. He said that the cost of repatriation is secondary to what it will cost the government to keep an unproductive employee. He suggested that rather than change the contract term from one year to two years, he will instead include a strict condition in all future contracts that excepted service employees of WRO shall not be entitled to home leave benefits upon opting to renew their contract.

Recommendation 7 - the Washington Representative agreed with the recommendation and stated that WRO will implement the recommendation as soon as possible.

Recommendation 8 - the Washington Representative agreed with the recommendation and stated that he has issued the directive to the Fiscal Officer.

### **OPA Comments**

Based on WRO's response, we consider recommendations 5 to 8 resolved. The additional information or action required to close the recommendations is presented in **Appendix B**.

## **2. Accounting for Leave Balances**

For most of fiscal years 1995 and 1996, annual and sick leave charges were recorded by a timekeeper based on information provided by employees and based on the timekeeper's personal observations. Each pay period, the timekeeper prepared a time sheet for employees posted in Washington, and recorded annual and sick leave used based on what the employees told him and the leave request forms they submitted. For WRO employees posted in Saipan, the timekeeper received facsimile copies of their leave information. The timekeeper prepared a bi-weekly Time Report, which included leave charges of all WRO employees. This report was approved by the Fiscal Officer or the Washington Representative and forwarded to the CNMI Department of Finance for recording.

Starting with the pay period ending August 17, 1996, the Washington Representative authorized the use of a time clock and required each employee to punch in and out. We were advised that this was done to improve internal controls over the employee's work effort. The Washington Representative should be commended for this effort.

We found, however, that WRO has not maintained oversight of each employee's leave balances. Leave balances are not maintained by WRO, but WRO does receive from DOF in Saipan a master leave report every two weeks which provides an overview of employee leave balances. This report should be used to maintain oversight of employee leave balances.

## Conclusion and Recommendation

In our view, WRO managers can improve their oversight and internal controls of leave usage by using the master leave balance report provided by DOF in Saipan as a management tool. Accordingly, we recommend that:

9. The Washington Representative issue a directive requiring WRO administrative staff to use DOF's Master Leave Report as a management tool for authorizing leave, particularly when advance leave is requested.

### WRO Response

The Washington Representative agreed with the recommendation and stated that he has issued the directive to the Fiscal Officer.

### OPA Comments

Based on WRO's response, we consider recommendation 9 resolved. The additional information or action required to close the recommendation is presented in **Appendix B**.

## 3. Travel Advances

Travel Authorizations (TAs) for employees posted in Washington or the CNMI are prepared by WRO in Washington. The TA is requested by the traveler, authorized by the Washington Fiscal Officer and approved by the Washington Representative. A full 100 percent advance is provided to cover per diem and other miscellaneous expenses. WRO records travel advance as an expense in their accounting system. DOF records travel advance as an encumbrance rather than a travel expense. In our view, DOF's practice is correct, and WRO should also record the travel advance in the same manner.

Air transportation is generally paid directly to a travel agency. Upon completion of travel, the traveler is required to prepare a travel voucher which is submitted to DOF in Saipan for computation. If the traveler must return a portion of the advance, a personal check is given to WRO or the extra amount advanced is deducted from the traveler's salary. All travel expenses are paid by and from the WRO Washington office.

CNMI Travel Regulations currently limit the advance to 80 percent of the total estimated per diem and other expenses shown on the travel authorization. The preparation of a travel voucher is mandatory. The CNMI travel regulations provide that the traveler is responsible for preparing and submitting a travel voucher within ten days after the completion of the travel.

We selected 15 TAs from fiscal years 1995 and 1996. DOF staff were only able to find five of the selected travel vouchers. Despite the requirements of the CNMI travel

regulations, travel vouchers are not being prepared in a timely manner by WRO employees. We were advised that some vouchers are never submitted and others may be two or more years old before being submitted. We were told that in such cases, DOF would normally deduct the full advance given to the traveler from his/her paycheck after first sending a dunning letter. We were further advised by DOF representatives, however, that although dunning letters have been sent to WRO employees not submitting a travel voucher, the next step of deducting the advances from the employee's salary has not been taken.

Because travel vouchers are not always submitted by WRO employees or if submitted are not promptly recorded by DOF, the travel expense account per DOF's records shows an outstanding encumbrance of over \$71,000 for fiscal year 1996. Much of this travel has in fact been completed. While WRO accounting records show travel expenses totaling \$104,756, DOF records show travel expenses totaling \$70,553 and an encumbrance of \$71,288 in fiscal year 1996. In this regard, a part of the encumbrance goes back to prior fiscal years. For example, one employee has travel advances for five separate trips, three of which go back to fiscal year 1995. The current amount shown as outstanding travel advance for this employee is \$13,871.35. Nonetheless, the employee continues to obtain a travel advance on a new travel authorization even though prior travel advances are not being liquidated. This is in violation of the CNMI travel regulations requiring that an individual who has failed to repay the total amount of any advance he/she previously received under a different travel authorization will not be authorized further travel advances on subsequent trips.

## **Conclusion and Recommendations**

In our view, both WRO and the DOF Travel Section have been remiss in carrying out their responsibilities to assure that travel vouchers are promptly submitted and encumbrances promptly reduced. We also believe that providing the traveler with a 100 percent travel advance has reduced the incentive to submit travel vouchers promptly.

Accordingly, we recommend that:

10. The Secretary of Finance instruct the Director of Finance and Accounting to review and reconcile all outstanding travel encumbrances with a view toward determining which travel has been completed and what encumbrances can be eliminated and charged to travel expense.
11. The Secretary of Finance instruct the Director of Finance and Accounting to insist that actual dunning action be taken and deductions from salaries implemented on all future travel advances when travel vouchers are not submitted in a reasonable amount of time after completion of the travel.
12. The Washington Representative issue a written directive to the WRO Fiscal Officer to reduce the amount of travel advance to 80 percent of the total

estimated per diem and other expenses shown on the travel authorization, to refuse further issuance of a travel authorization to an employee who has not submitted a travel voucher to liquidate an outstanding travel advance, and to record travel advances in WRO's accounting system as a receivable and not as an expense.

### **DOF Response**

The response of the Secretary of Finance to recommendations 10 and 11 is as follows:

Recommendation 10 - The Division of Finance and Accounting is distributing reminder notices of outstanding travel encumbrances to members of the Legislature and contract employees. We have included the WRO, and letters have gone out to individual employees of the office to reconcile all outstanding travel on record. If they do not make a response to the Division of Finance and Accounting within ten days after the date of the letter, Finance and Accounting will begin payroll deduction immediately to settle the obligation.

Recommendation 11 - On April 28, 1998 the Secretary of Finance issued a memorandum, through the Governor, to all departments and activity heads, Senate President, Speaker of the House, and Chief Justice on salary deductions for outstanding travel advances, and on November 27, 1998 issued a memorandum to all department and activity heads restricting travel advances for travelers who have an outstanding amount due to the CNMI (copies attached).

### **WRO Response**

Recommendation 12 - The Washington Representative stated that the recommendation is now being fully followed. The response included a copy of the directive issued to the Fiscal Officer on January 4, 1999.

### **OPA Comments**

Based on DOF's and WRO's responses, we consider recommendations 10, 11, and 12 closed.

## **4. Procurement**

According to WRO officials, WRO has no written procedures regarding procurement of goods, supplies, or professional services, and WRO is not subject to the procurement rules and regulations of the CNMI. We disagree with this. Pursuant to Section 1-105 of the CNMI Procurement Regulations, the regulations apply to every expenditure of public funds irrespective of source, and the regulations apply to all agencies, departments, branches of the government, political subdivisions, public corporations, and agencies of local government of the Commonwealth. In addition, the CNMI Procurement Regulations provide that an agency must meet certain conditions before it can be allowed to perform procurement functions. These

Service	Service Period	Monthly Amount	Total Contract Payment
Janitorial	01/01/96 - 12/31/96	\$950.00	\$11,400.00
Consulting	02/01/95 - 03/01/95	4,000.00	4,000.00
Consulting	10/17/96 - 01/16/97	3,000.00	9,000.00
Consulting	01/01/96 - 05/01/96	3,400.00	13,600.00
Consulting	04/19/95 - 06/19/95	6,000.00	12,000.00
Consulting	01/01/96 - 12/31/96	As Billed	27,500.00
Consulting	09/01/96 - 11/13/96	As Billed	12,000.00
Legal	As Needed	As Billed	As Billed

Table 3 Schedule of Procurement Activity

conditions require the agency to certify to the Director of Procurement and Supply that it has adopted its own procurement regulations (which should be identical to the CNMI Procurement Regulations), and that it has adequate staff capability necessary to carry out procurement functions. WRO, however, performs its own procurement although it has not complied with these conditions.

The status of contracts in effect during the period of our review are shown in **Table 3**. A number of these contracts are repetitive from one year or one period to another.

CNMI Procurement Regulations, Section 3-103 Small Purchases states that (1) bidding is not required for procurement under \$2,500, and (2) bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. Prices must be obtained from at least three vendors and the selection of a vendor should be based on competitive price and quality for procurement valued at \$2,500 to \$10,000. With regard to the procurement of professional services, it is the policy of the CNMI to:

- Announce all requirements for professional services and negotiate contracts on the basis of demonstrated competence and qualifications at a fair and reasonable price. Files on the qualifications of professional firms shall be maintained.
- Adequate notice shall be given for professional services through a Request for Proposals.
- Discussions may be conducted with any offeror who has submitted a proposal to determine such offeror’s qualifications.
- The award shall be made to the offeror determined in writing to be the best qualified based on evaluation factors set forth in the Request for Proposals.

Our examination showed that WRO did not adhere to the competitive selection method of procurement as required by the CNMI Procurement Regulations. We were advised that the contracts listed in the preceding Schedule of Procurement Activity (**Table 3**) were awarded on the basis of information available to the Washington Representative.

According to the Washington Representative, the three fundamental areas of qualifications considered for each contract award are the contractor's:

- Knowledge and experience concerning the CNMI,
- Knowledge and experience concerning Washington, D.C. and the workings of the U.S. Congress, and
- Knowledge of both Washington, D.C. and the CNMI.

In addition, the Washington Representative said his personal knowledge of and trust and confidence in the person or individual obtaining the contract is also an important factor. We were also advised that the contract amounts are considered “borderline” in terms of the requirements under the CNMI Procurement Regulations. In this regard, it was the judgment of the Washington Representative that WRO would be better served by applying the above factors.

### **Conclusion and Recommendation**

The procurement of consulting services did not adhere to standard policy and procurement methods for the competitive selection of professional services. Moreover, the extent of discussion with competitive professional service providers was not documented in the procurement files. In our view, WRO should adhere to the CNMI Procurement Regulations. Accordingly, we recommend that:

13. The Washington Representative issue a written directive to the Fiscal Officer that any future procurement of goods and services should adhere to all requirements specified in the CNMI Procurement Regulations, and that the extent of effort to secure competition be documented in the files.

#### **WRO Response**

The Washington Representative stated that the recommendation is now being fully followed. The response included a copy of the directive issued to the Fiscal Officer on January 4, 1999.

#### **OPA Comments**

Based on WRO's response, we consider recommendation 13 closed.

## **5. Representation Allowance**

Official representation is used by the Office of the Washington Representative for official meetings, consultations, and entertainment in carrying out the duties and functions of WRO. Entertainment activities include but are not limited to members of Congress, congressional staffers, Federal departments and agencies, official visitors from the CNMI, CNMI public officials during oversight and budget hearings, and

hosting volunteer, student and other special functions associated with CNMI activities. In fiscal years 1995 and 1996, representation expenses totaled \$17,940 and \$23,671 respectively.

Representation expenses incurred by the Washington Representative and members of his staff are reimbursed by submitting a “Reimbursement Request” form which is signed by the payee and approved by the Washington Representative. The employee submitting the Reimbursement Request form must also submit documentation supporting the expense incurred.

Although the Reimbursement Request form contains a certification that the payment was made for public purposes related to the official duties of the Office and the specific expenses incurred, it does not describe the specific purpose of the expense and its relation to representation, who entertained, and who were entertained. We found that expenses were adequately supported and for the most part associated with representational activities. Two expenditures that we found questionable were as follows:

- Bottled water for use in the Saipan and Washington offices was charged to representation expenses. We initially questioned the purchases of bottled water for the Washington office inasmuch as we felt that tap water in Washington is potable. We also questioned the purchases of bottled water as an expense chargeable to official representation.
- An emergency loan dated April 11, 1996 amounting to \$2,500 was made to a relative of a WRO employee. A Promissory Note was prepared and the loan was to be repaid by April 30, 1996. As of February 1997, the loan was still being carried as outstanding. In our view, this use of representation funds is inconsistent with the purposes of the fund. Moreover, since the person receiving the loan is a relative of a WRO employee, it would appear that a repayment arrangement could have been made with the employee.

We were advised by the Washington Representative that the loan was made purely as a humanitarian gesture. In this regard, verbal efforts have been made to collect the loan and if unsuccessful, the Washington Representative will initiate a more aggressive way of collecting the loan.

The Washington Representative also stated that he would stop the purchase of bottled water for the Washington office if OPA insisted, but implied that the tap water was unhealthy due to reported high levels of chlorine and lead.

## **Conclusion and Recommendations**

In our view, the purpose of representational expenditures should be clearly specified on the Reimbursement Request form and the names or organizations for which representation funds were spent should be clearly indicated on the form. We also believe that representational funds should not be used as a source of loans to needy

constituents. We will defer to the Washington Representative's view that the tap water in Washington is unhealthy and that bottled water for the Washington Office is justified. We believe, however, that such an expenditure should not be charged to representational expenses but to an office expense account. Accordingly, we recommend that the Washington Representative:

14. Issue a written directive to WRO staff requiring that the use of representational funds be restricted solely for representational purposes, and that these purposes be clearly identified and approved prior to the expenditure of representational funds.
15. Continue his efforts to collect the outstanding loan until such time as he is assured that any further collection efforts would be futile. At that time, the loan documentation should be turned over to the Department of Finance in Saipan for further action. If the obligation is collected, the amount should be returned to the CNMI General Fund.

### **WRO Response**

Recommendation 14 - The Washington Representative stated that the recommendation is now being fully followed. The response included a copy of the directive issued to the Fiscal Officer on January 4, 1999.

Recommendation 15 - The Washington Representative stated that partial payment of the loan was made by the borrower on 9/30/98 after numerous payment demands by WRO. Attached to the response was a copy of the Washington Representative's letter to the borrower, dated 1/5/99, demanding final payment of the outstanding balance of \$650.25.

### **OPA Comments**

The Washington Representative's response to recommendation 15 did not properly address the finding. The finding pertained to the outstanding \$2,500 emergency loan granted on April 11, 1996 by WRO to a relative of a WRO employee. The Representative's response did not provide the status of this \$2,500 loan, but instead, mistakenly provided the status of a \$1,080.25 loan provided by WRO to a different party on March 11, 1996. The \$1,080.25 loan was not included among our findings as the loan transaction was not one of the sample disbursements randomly selected for audit testing.

The Washington Representative should submit a response addressing recommendation 15. The response should state the current status of the \$2,500 loan and should include copies of documents evidencing the actions made to collect the loan or the actual receipt of payment. With regard to the \$1,080.25 loan, WRO should also provide OPA with copies of documents showing collection of the \$650.25 balance.

Additionally, WRO should provide OPA with copies of referral letters to DOF and Attorney General requesting legal action if the outstanding balances of the \$2,500 and \$1,080.25 loans are still not paid by this time.

Based on WRO's response, we consider recommendation 14 closed and recommendation 15 open. The additional information or action required to close recommendation 15 is presented in **Appendix B**.

## Appendix A

Note: Appendix A (15 pages) which contains the response letters of the CNMI Representative to Washington D.C. and the Secretary of Finance was intentionally omitted to reduce the size of the electronic version of this report. The responses have been incorporated in the text of this report. However, a copy of the response letters may be requested by e-mail to [mail@opacnmi.com](mailto:mail@opacnmi.com).

## Appendix B

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### STATUS OF RECOMMENDATIONS

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
1. The Secretary of Finance should direct the Director of Finance and Accounting at DOF to provide WRO in Washington with an updated chart of accounts, and assure that any deviations by WRO from the official cost category descriptions are first cleared with DOF in Saipan.	DOF	Closed	None
2. The Secretary of Finance should direct the Director of Finance and Accounting at DOF to prepare a reconciliation between expenses recorded by WRO and expenses recorded by DOF in Saipan for fiscal years 1995 and 1996. Any adjustments should be reflected in the financial records and reports of DOF.	DOF	Closed	None
3. The Secretary of Finance should direct the Director of Finance and Accounting at DOF to correct the transaction errors posted by DOF to WRO housing allowance account #6120, and adjust any financial management reports reflecting data resulting from recording the errors.	DOF	Closed	None
4. The Secretary of Finance should direct the Director of Finance and Accounting at DOF to establish and implement a policy requiring that transactions recorded in the WRO accounting system and the DOF accounting system be periodically reconciled.	DOF	Closed	None
5. The Washington Representative should issue a directive requiring WRO personnel to comply with CNMI personnel policies and procedures for excepted service employees with regard to employment conditions, leave policy, position qualification requirements, and other personnel administration requirements, unless deviations are specifically authorized.	WRO	Resolved	WRO should provide OPA with a copy of the written directive to WRO personnel.
6. The Washington Representative should issue a directive informing WRO personnel that all employment contracts shall cover not one year but two years subject to availability of funds, and shall include provisions that repatriation benefits will accrue only upon completion of the two-year contract and that any employee who receives repatriation benefits upon expiration or termination of a contract shall not be eligible for expatriation	WRO	Resolved	WRO should provide OPA with a copy of the revised contract form containing provisions that repatriation benefits will accrue only upon completion of the two-year contract and that any employee who receives repatriation benefits upon expiration or termination of a contract shall not be eligible for expatriation benefits under a new contract within six months of that expiration or termination.

**STATUS OF RECOMMENDATIONS**

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
benefits under a new contract within six months of that expiration or termination.			
7. The Washington Representative should issue a directive requiring WRO employees receiving housing allowance to provide WRO with documents (e.g., copy of lease agreement) demonstrating the actual cost of housing, and informing employees that they will be reimbursed only for actual housing costs not exceeding the maximum amount established by WRO.	WRO	Resolved	WRO should provide OPA with a copy of the written directive to WRO personnel.
8. The Washington Representative should issue a directive instructing the WRO Fiscal Officer to compute budget estimates for housing allowance based on the projected number of employees receiving housing allowance.	WRO	Resolved	WRO should provide OPA with a copy of the written directive to the WRO Fiscal Officer.
9. The Washington Representative should issue a directive requiring WRO administrative staff to use DOF's Master Leave Report as a management tool for authorizing leave particularly when advanced leave is requested.	WRO	Resolved	WRO should provide OPA with a copy of the written directive to WRO administrative staff.
10. The Secretary of Finance should instruct the Director of Finance and Accounting to review and reconcile all outstanding travel encumbrances with a view toward determining which travel has been completed and what encumbrances can be eliminated and charged to travel expense.	DOF	Closed	None
11. The Secretary of Finance should instruct the Director of Finance and Accounting to insist that actual dunning action be taken and deductions from salaries implemented on all future travel advances when travel vouchers are not submitted in a reasonable amount of time after completion of the travel.	DOF	Closed	None
12. The Washington Representative should issue a written directive to the WRO Fiscal Officer to reduce the amount of travel advance to 80 percent of the total estimated per diem and other expenses shown on the travel authorization, to refuse further issuance of a travel authorization to an employee who has not submitted a travel voucher to liquidate an outstanding travel advance, and to record travel advance in WRO's accounting system	WRO	Closed	None

**Appendix B**  
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**STATUS OF RECOMMENDATIONS**

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
as a receivable and not as an expense.			
13. The Washington Representative should issue a written directive to the Fiscal Officer that any future procurement of goods and services should adhere to all requirements specified in the CNMI Procurement Regulations, and that the extent of effort to secure competition be documented in the files.	WRO	Closed	None
14. The Washington Representative should issue a written directive to WRO staff requiring that the use of representational funds be restricted solely for representational purposes, and that these purposes be clearly identified and approved prior to the expenditure of representational funds.	WRO	Closed	None
15. The Washington Representative should continue his efforts to collect the outstanding loan until such time as he is assured that any further collection efforts would be futile. At that time, the loan documentation should be turned over to the Department of Finance in Saipan for further action. If the obligation is collected, the amount should be returned to the CNMI General Fund.	WRO	Open	The Washington Representative should submit a response addressing recommendation 15. The response should state the current status of the \$2,500 loan and include copies of documents evidencing the collection effort and/or receipt of payment by WRO. With regard to the \$1,080.25 loan, WRO should provide OPA with copies of documents evidencing collection of the \$650.25 balance. Additionally, WRO should provide OPA with copies of referral letters to DOF and Attorney General requesting legal action if the outstanding balances of the \$2,500 and \$1,080.25 loans are still unpaid.