



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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

2nd Floor J. E. Tenorio Building, Chalan Pale Arnold

Gualo Rai, Saipan, MP 96950

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

E-mail Address:
mail@opacnmi.com

Phone: (670) 234-6481
Fax: (670) 234-7812

August 15, 2001

Mr. Juan S. Torres
Administrator
Northern Mariana Islands Retirement Fund
P.O. Box 501247, CK
Saipan, MP 96950

Dear Mr. Torres:

Subject: Final Letter Report - Audit of Billings for a Professional Services Contract During the Period October 1, 1996 Through February 29, 2000 (Report No. LT-01-05)

This report presents the results of our audit of billings under a Northern Mariana Islands Retirement Fund's (NMIRF) professional services contract covering the period October 1, 1996 through February 29, 2000. The objectives of our audit were to determine: (1) whether professional fees charged by the NMIRF contractor were in accordance with the contracted billing rates, (2) the amounts and reasons for any overpayment, and (3) whether the billings submitted by the contractor were adequately supported.

Evidence gathered showed that the Fund's professional services contractor had overstated its monthly billings to NMIRF by \$7,934, and had submitted a double billing of \$992, as well as an overcharge of \$660 for time spent attending off-island meetings. These conditions occurred because: (1) the contractor applied an erroneous billing rate to NMIRF, and (2) NMIRF relied on the contractor's billings without adequately reviewing detailed monthly charges. As a result, the NMIRF overpaid its contractor by \$9,586.

We recommended that the NMIRF Administrator instruct the Fund's Accounting Manager to:

- Formally notify the contractor of the overpayment disclosed by our audit, and make arrangements to recover the overpayment.
- Adequately review all invoices before making payments by using a written memorandum or checklist to identify the important review procedures conducted. Each payment should, at a minimum, bear evidence that: (a) each invoice was compared to the purchase order or contract agreement for description, price, rates, and quantity; (b) the invoice quantity was compared to the receiving report when applicable; (c) the person receiving any goods or

services acknowledged receipt; (d) extensions and additions were tested; and (e) the invoice was approved for payment.

- Adopt measures to improve internal controls over the processing and payment of expenses. These could include measures ensuring that: (a) billings are supported by documents evidencing that goods were actually received or services rendered, (b) disbursement vouchers and supporting documents are marked paid after completion of check processing to prevent duplicate payments, and (c) written filing procedures are prepared to control and monitor the location of accounting records and documents.
- Evaluate whether it would be more cost effective for NMIRF to hire a full-time professional employee to provide the professional services previously rendered by the contractor.

Finally, we recommended that the Administrator instruct the Fund's Administrative Services Manager to request the contractor to provide NMIRF with adequate supporting documentation and information associated with the professional services rendered and billed.

OPA met with NMIRF officials on several occasions to discuss OPA's draft letter report's findings and recommendations. We are pleased that NMIRF officials took action on three of OPA's recommendations. Based on our meetings, we consider Recommendation 1 resolved, Recommendations 2 and 3 open, and Recommendation 4 and 5 closed. The additional information or action required to close the recommendations is presented in **Appendix C**.

BACKGROUND

The Office of the Public Auditor (OPA) initiated this audit at the request of an NMIRF official.¹ In a letter dated June 16, 2000, that official requested that OPA conduct an audit of a professional services contract for possible overpayments made to the contractor. The NMIRF had previously performed a preliminary review of the contractor's billings, and identified several overpayments due to errors in the billing rates used by the contractor. An employee of the contractor confirmed the billing errors, and explained that the contractor had increased the billing rates in its computer system effective January 1, 1997, apparently overlooking the fact that NMIRF had a current contract with different rates.

On October 13, 2000, OPA submitted a preliminary draft report to the NMIRF. The requesting NMIRF official, on November 1, 2000, requested that OPA perform additional procedures to verify if the contractor's billings were adequately supported.

¹ In accordance with statutory restrictions in the Auditing and Ethics Acts, names of individuals and corporations are not disclosed in this report.

Northern Mariana Islands Retirement Fund

On May 7, 1989, Public Law 6-17 established NMIRF as an autonomous government agency responsible for providing retirement security and other benefits to all employees of the CNMI Government. The NMIRF is administered by a seven-member Board of Trustees appointed by the Governor with the advice and consent of the Senate. An Administrator, who serves at the pleasure of the Board of Trustees, conducts NMIRF's day-to-day operations. As part of its responsibilities, the NMIRF also administers the operations of the Worker's Compensation Commission (WCC) and the Government Health and Life Insurance Trust Fund (GHLI). The WCC enforces worker compensation laws in the CNMI, while the GHLI is responsible for managing the health and life insurance programs for participating government employees.

Contract for Professional Services

On October 14, 1994, NMIRF entered into a professional services contract with a contractor who was to be compensated at a rate of \$165.00 per hour for "service type 1," and \$60.00 per hour for "service type 2." Typically, the contractor submits separate monthly billings for the NMIRF, WCC, and GHLI, and these billings are to be paid within 30 days of invoice submission.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine: (1) whether professional fees charged by the NMIRF contractor were in accordance with the contracted billing rates, (2) the amounts and reasons for any overpayment, and (3) whether the billings submitted by the contractor were adequately supported.

We conducted this audit at NMIRF's office in Saipan from June 21, 2000 to August 4, 2000, and from November 8, 2000 to January 12, 2001. To accomplish our objectives, we (1) reviewed professional services contract billings submitted and paid during the period October 1, 1996 through February 29, 2000; (2) verified the computation of rates on the contractor's billing invoices, and compared them with the contracted rates; (3) computed any overpayment; and (4) reviewed billing invoices and examined supporting documents, such as written opinions, letters, complaints, and summonses. We also interviewed knowledgeable officials and employees of the NMIRF and of the contractor. Our audit scope was limited because certain accounting records and documents were either missing or incomplete.

Government Auditing Standards require that organizations conducting government audits should have an external quality control review at least once every three years. OPA's last review was conducted in October 1997 when the office received a full compliance rating. An external quality control review is scheduled later this year. Except for the timeliness of an external quality control review and the scope limitation as noted above, this audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Accordingly, we conducted such tests of records and other auditing procedures as we considered necessary.

As part of our audit, we evaluated the NMIRF's internal controls over the processing and payment of professional fees, and found material internal control weaknesses, which are discussed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

During the past five years, OPA has issued no reports regarding NMIRF professional services contracts. However, an independent public accounting firm has issued annual financial audit reports on NMIRF for Fiscal Years 1996, 1997, 1998, and 1999 describing several internal control weaknesses, including the failure to mark or cancel paid supporting documents to prevent double payments. This weakness still exists.

FINDINGS AND RECOMMENDATIONS

A. Contractor was Overpaid by \$9,586

The NMIRF should ensure that monthly billings for professional services submitted by its contractors are valid, accurate, and in accordance with contracted billing rates. Our audit showed that the Fund's professional services contractor had overstated its monthly billings to NMIRF by \$7,934, and had submitted a double billing of \$992, as well as an overcharge of \$660 for time spent attending off-island meetings. These conditions occurred because (1) the contractor applied an erroneous billing rate to NMIRF, and (2) NMIRF relied on the contractor's billings without adequately reviewing the detailed monthly charges. As a result, the NMIRF overpaid its contractor by \$9,586.

Contracted Billing Rates

Under the contract, services were to be billed at \$165 per hour for "service type 1," and \$60 per hour for "service type 2." The contract also provided that any time spent attending off-island meetings where overnight stays were required was to be billed at a rate of eight hours per day. While the monthly billings showed hours spent and the charges for each individual query or advice, they did not show rates used to arrive at the amounts billed. Thus, the NMIRF Accounting Department was required to multiply the number of hours spent with the contracted rates to verify the accuracy of the amounts charged.

Billings Overstated

Our audit showed that, beginning in October 1996, monthly billings submitted by the contractor were overstated. Our computations showed that the NMIRF was billed at hourly rates which exceeded the contractual billing rates, i.e., at \$175 to \$210 per hour for “service type 1,” and at \$75 to \$165 per hour for “service type 2.” As a result, contractor billings were overstated by \$7,933.88 during the period from October 1, 1996 through February 29, 2000 as follows:

Particulars	Amount Billed and Paid ²	Amount of Contracted Rates	Overstatements
Fiscal Year 1997			
- NMIRF	\$2,333.80	\$1,656.00	\$677.80
- WCC	623.25	462.60	160.65
- GHLI	7,122.95	4,893.22	2,229.73
Fiscal Year 1998			
- NMIRF	6,428.25	5,140.20	1,288.05
- WCC	3,275.25	2,609.25	666.00
- GHLI	97.30	81.87	15.43
Fiscal Year 1999			
- NMIRF	8,825.10	7,152.25	1,672.85
- WCC	770.85	602.25	168.60
- GHLI	807.75	646.20	161.55
Fiscal Year 2000 (as of 2/29/00)			
- NMIRF	4,360.50	3,488.40	872.10
- WCC	97.50	78.00	19.50
- GHLI	42.12	40.50	1.62
TOTAL	\$34,784.62	\$26,850.74	\$7,933.88

Our audit also showed a double billing of \$991.65 for services rendered (**Appendix A**), and an overcharge of \$660, where contractor billings exceeded the allowed flat rate of eight hours per day for attendance at off-island meetings (**Appendix B**). Consequently, total monthly billings paid were overstated by \$9,585.53.

Failure to Review Monthly Billings

The overstatements occurred primarily because: (1) the contractor applied an erroneous billing rate to NMIRF, and (2) NMIRF relied on the contractor’s billings without adequately reviewing detailed monthly charges.

NMIRF’s professional services contract, effective October 14, 1994, specifies that hourly fees for all “type 1 service” and “type 2 service” is \$165 and \$60 respectively. On June 21, 2000, OPA requested an NMIRF Administrative Services official to explain billing errors made by its

² This is net of adjustments due to charges error, credits given and pending materials from the contractor.

contractor. The official said that when the contractor increased its professional service fee rates effective January 1, 1997, its hourly rate for “type 2 service” was increased from \$60 to \$75, and sometimes \$85, and its rate for “type 1 service” was increased from \$165 to \$175, and sometimes \$210. NMIRF should not have been billed the higher rates, because previously agreed contracted rates were still in effect.

A former Administrative Specialist of the contractor acknowledged that the billing errors began in 1997, and that the contractor overlooked its contract with NMIRF when it changed its automated billing rates on January 1, 1997. Further, the contractor said that NMIRF’s rates should not have increased, as its contract with NMIRF had not been amended.

The NMIRF Accounting Office’s procedures for determining the propriety of professional services are inadequate, as they failed to detect errors that occurred for almost 4 years. A former Administrator periodically reviewed and initialed the invoices for processing of payments, but also failed to notice the errors, apparently failing to verify the accuracy of the rates applied. As a result of not adequately reviewing the erroneous monthly billings, NMIRF overpaid the contractor from October 1996 through February 2000.

We discussed the errors and resulting overpayment of professional services with the contractor, who agreed with the errors and concurred with the amount overpaid.

B. Other Matters

Billings for Professional Services Not Adequately Documented

Our review showed that the contractor submitted 8 billings for professional services to NMIRF without adequate supporting documents. After we were informed that the deliverables, i.e., documents prepared by the contractor (written opinions, draft letters, summonses, and complaints), were either missing or unavailable, we requested that the contractor provide supporting documents for the billings. On April 18, 2001, the contractor provided OPA with related documentation and information. OPA will provide this information to NMIRF for its files.

Disbursement Vouchers and Supporting Documents Not Voided Upon Payment

During our examination of disbursement vouchers and invoices that evidence payment for professional services, we noted that the supporting documents were not marked paid or otherwise voided. To prevent the reuse of original documents and possible duplication of payments, the Administrative Services Department should, upon completion of check processing, void disbursement vouchers and supporting documents. This can be accomplished by stamping “PAID” on the face of the documents.

Missing and Incomplete Accounting Records and Documents

The scope of our audit was limited because the following accounting records and documents were either missing or incomplete: (1) NMIRF general ledger from October 1997 to April 1998, (2) WCC general ledger for Fiscal Years 1997 and 1998, (3) original contract folder and procurement documents for professional services, and (4) supporting invoices for check numbers 2493, 2628, 2807, and 2993. As a result, we had no assurance that our audit detected all billing errors. These conditions also indicate the lack of proper record keeping and maintenance procedures.

Interest Charges

NMIRF's contract for professional services provides that monthly billings shall be paid within 30 days after invoice submission. Our review showed that several GHFI payments included interest charges totaling about \$216 because of GHFI's failure to promptly process payments. We were informed that the contractor charged a monthly interest rate of 1 percent, or 12 percent annually, for delayed payments.

Conclusion and Recommendations

While NMIRF should ensure that professional services are valid, accurate, and properly authorized, it instead relied on billings submitted by the contractor without adequately reviewing the detailed monthly charges. Consequently, errors committed by the contractor were not detected, resulting in overpayments. Accordingly, we recommend that the Administrator instruct the:

Accounting Manager to:

1. Formally notify the contractor of the overpayment disclosed by our audit, and make arrangements to recover the overpayment.
2. Adequately review all invoices before making payments by using a written memorandum or checklist to identify the important review procedures conducted. Each payment should, at a minimum, bear evidence that: (a) the invoice was compared to the purchase order or contract agreement for description, price, rates, and quantity; (b) the invoice quantity was compared to the receiving report when applicable; (c) the person receiving any goods or services acknowledged receipt; (d) extensions and additions were tested; and (e) invoice was approved for payment.
3. Adopt measures to improve internal controls over the processing and payment of expenses. These could include measures ensuring that: (a) billings are supported by documents evidencing that the goods were actually received or services rendered, (b) disbursement vouchers and supporting documents are marked paid after completion of check processing

to prevent duplicate payments, and (c) written filing procedures are prepared to control and monitor the location of accounting records and documents.

4. Evaluate whether it would be more cost effective for NMIRF to hire a full-time professional employee to provide professional the services previously rendered by the contractor.

Administrative Services Manager to:

5. Request the contractor to provide NMIRF with adequate supporting documentation and information associated with the professional services rendered and billed.

Northern Mariana Islands Retirement Fund Response

OPA met with NMIRF officials on several occasions to discuss OPA's findings and recommendations. At one of these meetings, NMIRF officials advised OPA that on July 17, 2001, NMIRF paid the contractor \$9,697.45 for what it considered its final payment after making adjustments for billing errors that OPA identified during the audit.

OPA Comments

We are pleased that NMIRF official took action on three of OPA's recommendations. However, based on our reconciliation of professional services billings and payments, it appears that a final payment made to the contractor in July 2001 may, however, be incorrect. We are assisting NMIRF officials to further analyze billings and payments, and will issue our analysis and reconciliation in a separate letter to the NMIRF.

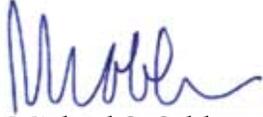
Based on our meetings with the NMIRF officials, we consider Recommendation 1 resolved, Recommendations 2 and 3 open, and Recommendations 4 and 5 closed. The additional information or action required to close Recommendations 2 to 3 is presented in **Appendix C**.

★ ★ ★

OPA 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 in which OPA is 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 the recommendation has been withdrawn.

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

Sincerely,



Michael S. Sablan
Public Auditor

xc: Governor
Lt. Governor
Twelfth CNMI Legislature (27 copies)
Administrator of the Northern Mariana Islands Retirement Fund (NMIRF)
Members of the Board of Trustees, NMIRF (7 copies)
Secretary of Finance
Special Assistant for Management and Budget
Attorney General
Press Secretary
Media

Appendix A

NORTHERN MARIANA ISLANDS RETIREMENT FUND SCHEDULE OF DOUBLE BILLING OCTOBER 1, 1996 TO FEBRUARY 29, 2000

Invoice Date	Invoice Number	Date Paid	Date Rendered	Services Rendered	Hours	Billed Amount
9/10/97	12283	9/18/97	8/29/97	Prepare Findings of Facts and Conclusion of Law for an appeal (cont.); review materials for tonight's board meeting; phone call from a government employee, regarding P.L. 9-22 and funding earmarked for NMIRF; attend special board meeting; finalized an order per NMIRF's official request.	6.01	\$991.65
10/15/97	12327	10/17/97	9/1/97	Prepare Findings of Fact and Conclusion of Law for an appeal; review materials for board meeting; confer with a government employee, re: P.L. 9-22 and funding earmarked for NMIRF; attend special board meeting; finalize an order per NMIRF's official request.	6.01	\$991.65

**NORTHERN MARIANA ISLANDS RETIREMENT FUND
SCHEDULE OF OVERCHARGES
OCTOBER 1, 1996 TO FEBRUARY 29, 2000**

Invoice Date	Invoice Number	Services Rendered	Hours
8/5/98	12933	Attend regular meeting of the board on TINIAN.	10
		Should be flat hours charged	8
		Difference	2
9/6/99	13755	Attend hearings and board meeting in ROTA to advise board on matters and assist in deliberation on certain cases.	10
		Should be flat hours charged.	8
		Difference	2
		Total excess hours	4
			@ 165/hour
		Overcharges	\$660

**NORTHERN MARIANA ISLANDS RETIREMENT FUND
AUDIT OF BILLINGS FOR A PROFESSIONAL SERVICES CONTRACT
OCTOBER 1, 1996 TO FEBRUARY 29, 2000**

STATUS OF RECOMMENDATIONS

Recommendations	Agency to Act	Status	Agency Response/ Action Required
<p>The Fund Administrator should instruct the Accounting Manager to:</p> <p>1. Formally notify the contractor of the overpayment disclosed by our audit, and make arrangements to recover the overpayment.</p>	NMIRF	Resolved	NMIRF officials advised OPA that NMIRF had, on July 17, 2001, paid the contractor \$9,697.45 for what it considered its final payment after making adjustments for billing errors that OPA had identified during the audit. However, based on our reconciliation of professional services billings and payments, it appears that a final payment made to the contractor in July 2001 may, however, be incorrect. We are assisting NMIRF officials to further analyze billings and payments, and will issue our analysis and reconciliation in a separate letter to the NMIRF.
<p>2. Adequately review all invoices before making payments by using a written memorandum or checklist to identify the important review procedures. Each payments should, at a minimum, bear evidence that the following procedures were performed: (a) the invoice was compared to the purchase order or contract agreement for description, price, rates, and quantity, (b) the invoice quantity was compared to the receiving report where applicable, (c) the person receiving the services acknowledged receipt, (d) extensions and additions were tested, and (e) invoice was approved for payment.</p>	NMIRF	Open	No action has been taken to address the recommendation. NMIRF should consider and implement the recommendation.
<p>3. Adopt measures to improve internal controls over the processing and payment of expenses, such as: (a) ensuring that billings are supported by documents evidencing that the services were actually rendered, (b) disbursement vouchers and supporting documents, such as invoices, statement of accounts, and receiving reports, are marked paid after completion of check processing to prevent duplicate payments, and (c) written filing procedures are prepared to control and monitor the location of accounting records and documents.</p>	NMIRF	Open	No action has been taken to address the recommendation. NMIRF should consider and implement the recommendation.
<p>4. Evaluate whether it would be more cost effective for the NMIRF to hire a full-time professional employee to provide the professional services previously rendered by the contractor.</p>	NMIRF	Closed	On September 5, 2000, NMIRF hired a full time professional employee to perform the services previously rendered by the contractor.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND
AUDIT OF BILLINGS FOR A PROFESSIONAL SERVICES CONTRACT
OCTOBER 1, 1996 TO FEBRUARY 29, 2000**

STATUS OF RECOMMENDATIONS

Recommendations	Agency to Act	Status	Agency Response/ Action Required
<p>The Fund Administrator should instruct the Administrative Services Manager to:</p> <p>5. Request the contractor to provide NMIRF with adequate supporting documentation and information associated with the professional services rendered and billed.</p>	NMIRF	Closed	<p>On April 18, 2001, the contractor provided OPA with documents and information relating to the unsupported billings. OPA will provide this data to NMIRF for its use.</p>