

# *Audit Report*

## Expenditures of the Marianas/Hawaii Liaison Office

July 1, 1990 to January 9, 1994

(Report No. AR-97-01)



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

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**O**ur audit showed that M/HLO (1) violated procurement regulations by purchasing a vehicle, insurance, and medical equipment totaling \$59,233 without following required procedures for obtaining the best possible price, (2) allowed questionable payments totaling \$48,736 from the medical referral imprest fund such as unnecessary ticket upgrades, excessive hotel accommodation rates, and unauthorized funeral service costs, (3) allowed reimbursement of expenses amounting to \$6,069 without adequate supporting documents, and (4) wasted public funds by paying per diem expenses of the former Liaison Officer totaling \$9,964 for extended travel which lasted almost 4½ months without reasonable justification. In addition, M/HLO and DOF did not (5) enforce collection of long-outstanding travel advances totaling \$7,051, (6) establish procedures to control personal long distance calls made by employees, (7) maintain detailed records for individual accounts receivables, (8) resolve and adjust bank reconciling items, and (9) comply with several Federal and State employment tax requirements.

In March 1994, the Liaison Officer of the Marianas/Hawaii Liaison Office (M/HLO) requested the Office of the Public Auditor (OPA) to audit the financial transactions of M/HLO starting from July 1, 1990 (the day after the last day of the period covered in the last audit) to February 4, 1994. Later, in October 1994, the Liaison Officer requested OPA to audit M/HLO's financial transactions for fiscal year (FY) 1994.

1 CMC §2091 established the M/HLO within the Office of the Governor, headed by the Liaison Officer who is appointed by, and is under the direct supervision and control of, the Governor. 1 CMC §2092 provides that the Liaison Officer shall assist the Governor in faithfully executing CNMI laws, including those laws, regulations, and policies regarding student assistance and off-island medical referral activities.

The operations and activities of the M/HLO were funded by a \$50,000 imprest fund account until October 1, 1990 when the Department of Finance

(DOF) issued the Finance Policy and Procedure Manual 91-1 relating to Imprest Funds. The Manual provided that M/HLO will have two imprest fund accounts as follows: (1) a \$10,000 Operations imprest fund for payment of authorized M/HLO expenditures, and (2) a \$20,000 Medical Referral imprest fund for payment of authorized medical referral activities.

A checking account is maintained for each imprest fund and all M/HLO disbursements are paid out of these accounts. Imprest fund disbursements are replenished through M/HLO's submission of Replenishment Request documents to DOF. After review of documents, DOF requests a bank transfer to the M/HLO imprest fund checking account for the amount allowed.

The objectives of the audit were to determine whether (1) imprest fund payments were valid, accurate, complete, and complied with applicable laws and regulations, and (2) internal control procedures were adequate.

Our audit covered the period from July 1, 1990 to January 9, 1994 (*i.e.*, the period covering transactions of the previous administration). Transactions regarding the current administration will be covered in a separate audit.

Procurement Regulations. The directive should announce the adverse actions that will be imposed on anyone who willfully violates the regulations.

**PROCUREMENT**

**Questionable Imprest Fund Payments**

**Violations of CNMI Procurement Regulations**

Written policies and procedures are necessary for medical referral expenses to ensure that only valid and reasonable expenses are paid out of the imprest fund. Our audit showed, however, that M/HLO allowed questionable payments from the imprest fund for (1) ticket upgrades of patients and escorts costing \$9,264 without doctors' justifications, (2) hotel accommodation of patients and escorts which exceeded the usually allowed rates by \$2,711, and (3) funeral service costs of deceased patients amounting to \$36,761 which should not be considered allowable expenses. This occurred because there were no written guidelines covering these types of expenses, and because M/HLO did not consistently follow existing practices or requirements. As a result, the M/HLO imprest fund may have been subjected to waste and abuse, and there was no assurance that imprest fund payments totaling \$48,736 were valid and reasonable.

CNMI Procurement Regulations provide that all government procurement should be awarded through competitive sealed bidding, except when other methods of procurement specified in the regulations are justified. For procurement over \$2,500 and under \$10,000, bidding is not required; however, selection should be based on price quotations from at least three vendors. Our audit showed, however, that M/HLO purchased (1) a vehicle costing \$17,671 without following competitive sealed bidding procedures, and (2) vehicle insurance and medical equipment totaling \$41,562 without following competitive sealed bidding procedures and obtaining price quotations from at least three vendors as required. This occurred because M/HLO did not comply with the applicable procurement rules and regulations. As a result, there was no assurance that procurement valued at \$59,233 was obtained at the best possible price, thereby violating CNMI Procurement Regulations.

Accordingly, we recommend that the Liaison Officer:

Accordingly, we recommend that the Secretary of Finance:

1. Issue a directive to the Liaison Officer emphasizing the need to enforce compliance with the CNMI

2. Coordinate with the Secretary of Public Health to develop and implement written policies and procedures regulating medical referral expenses relating to ticket upgrades, hotel accommodations, and funeral services.

### **Reimbursements of Unsupported Expenses**

Under the DOF imprest fund policies and procedures, payments should not be allowed if supporting documents are missing or inadequate. Our audit showed, however, that M/HLO allowed the reimbursement of expenses from the imprest fund amounting to \$6,069 without adequate supporting documents. This occurred because M/HLO did not follow imprest fund regulations requiring that expenses be adequately supported. Also, DOF processed the imprest fund replenishment request although the expenses were not adequately supported. As a result, there was no assurance that imprest fund expenses totaling \$6,069 were valid and accurate.

Accordingly, we recommend that:

3. The Secretary of Finance issue a directive to the Liaison Officer emphasizing the need for compliance with imprest fund regulations. The directive should also state that DOF will reject any request for imprest fund replenishment by M/HLO if supporting documents are missing or inadequate.
4. The Liaison Officer investigate and, if necessary, take steps to recover the amounts reimbursed without adequate supporting documents from the responsible officials and employees. Any action taken in this regard should be written and documented.

### **TRAVEL**

#### **Public Funds Wasted On 4½ Month Long Travel of Former Liaison Officer**

Government travel should be limited to official business and completed within a reasonable period of time to prevent the waste and abuse of public funds. Our audit showed, however, that the former Liaison Officer traveled to the CNMI and was paid per diem totaling \$9,964 covering the period October 1989 to February 1990 (about four-and-a-half months). The original travel authorization was amended and extended four times; however, the purposes of the extensions do not appear to warrant the extended travel period. This occurred because of the lack of written policies and procedures for justifying the length of the travel period in relation to travel purpose. As a result, public funds were wasted due to unnecessary extension of travel engaged in by the former Liaison Officer.

Accordingly, we recommend that the Secretary of Finance:

5. Develop and implement written policies and procedures which require that all travel and related extensions be supported by specific itineraries and covering dates.

#### **Long-Outstanding Travel Advances Remain Uncollected**

CNMI public laws and regulations require travelers to liquidate their travel advances within 15 days from the completion of travel. Failure to liquidate advances may result in salary

deductions. Our audit showed, however, that (1) travel advances of \$5,427 given by M/HLO to four individuals, including a non-government employee (specialist), remained unliquidated for more than three years, and (2) two non-government employees (consultants) failed to refund outstanding travel advances in excess of their travel expenses totaling \$1,624. This occurred because DOF failed to enforce collection of outstanding travel advances through salary deductions and because of the lack of collection procedures for non-government employees. As a result, long-outstanding travel advances totaling at least \$7,051 remain uncollected.

employees. Our review of three monthly telephone billings out of 36 months billed and paid by M/HLO showed, however, several personal long distance calls totaling about \$200 made by employees. The calls were charged to the M/HLO account and were not collected from the employees. This occurred because of the lack of written policies and procedures for monitoring and controlling long distance phone calls. As a result, a significant part of the \$18,000 communication expenses from fiscal years 1991 to 1993 may have been personal in nature and not related to M/HLO's operations. These personal expenses should be identified and recovered from employees.

Accordingly, we recommend that the Secretary of Finance:

Accordingly, we recommend that the Liaison Officer:

6. Issue a directive to the DOF-Travel Section to identify all long-outstanding travel advances granted by M/HLO to government officials and employees, and initiate collections through salary deductions.
7. Instruct the DOF-Travel Section to follow up collection of excess travel advances from the two non-government employees. Written policies and procedures regarding follow up and collection of long-outstanding advances from non-government employees should also be developed and implemented.

8. Establish and implement written policies and procedures for controlling long distance calls placed by employees.
9. Take action to recover charges for personal calls made by employees. This can be accomplished by assigning a staff member to analyze previous telephone billings paid by M/HLO and to identify personal long distance calls made by employees. Written documentation of steps taken by the Liaison Officer to recover charges for personal calls identified by the staff member should be prepared.

**ACCOUNTING MATTERS**

**No Subsidiary Records of Individual Accounts Receivable**

**Personal Long Distance Calls Not Collected from Employees**

Detailed records, such as a subsidiary ledger, should be maintained for individual accounts receivable in order to easily determine outstanding

Personal long distance calls should be controlled and collected from

balances. Our audit showed, however, that collection of several advances made by M/HLO could not be verified because DOF recorded and combined individual accounts receivable into one general ledger account and the balances of individual accounts receivable could not be readily determined. This occurred because of the lack of written policies and procedures for monitoring and controlling individual accounts receivable. As a result, there was no assurance that M/HLO receivables totaling \$9,299, as well as other DOF accounts receivable, were collected on a timely basis.

Accordingly, we recommend that the Secretary of Finance:

10. Develop and implement an accounts receivable subsidiary ledger system that can readily provide the status (*i.e.*, current or past-due) and outstanding balances of amounts owed by individuals.
11. Assign a DOF staff member to verify the status of receivables from two families for funeral expenses amounting to \$2,183 and \$3,316, respectively, and pursue collection if still outstanding. Also, ensure liquidation of the \$3,800 advance for the cost of eye prosthesis of a medical referral patient, and pursue reimbursement from the appropriate federal grantor agency.

### **Bank Reconciling Items Not Resolved and Adjusted**

Reconciling items noted in the monthly bank reconciliations should be resolved and adjusted in the books to reflect accurate account balances. Our audit showed, however, that several

reconciling items noted in the monthly bank reconciliation of M/HLO's two imprest funds, such as stale dated checks, bank transfers, returned checks and a bank debit memo, remained outstanding and unadjusted in the books. This occurred because deadlines for resolving bank reconciling items were not established. As a result, (1) M/HLO's operations and medical referral bank account balances recorded in the books as of September 30, 1993 were understated by \$16,537 and \$3,312, respectively, due to unadjusted reconciling items, and (2) a \$1,000 loss may have been incurred because a check returned by the bank due to insufficient funds was not followed up for collection.

Accordingly, we recommend that the Secretary of Finance:

12. Establish written policies and procedures to resolve and adjust bank reconciling items in a timely manner.
13. Instruct the DOF - Reconciliation Branch and the appropriate DOF division/section (*i.e.*, Treasury and Accounts Payable) to coordinate and take action to facilitate the adjustment of the outstanding reconciling items in the M/HLO operations and medical referral imprest fund bank accounts. Also, investigate the status of the \$1,000 insufficient funds check of Pan Korea Enterprises and pursue collection, if necessary.

**OTHER MATTER****Applicable Tax Laws Not Complied With**

Federal and Hawaii State laws require withholding of taxes on all wages paid and remittance of taxes withheld accordingly. In addition, employers are required to pay their corresponding share of Medicare tax and to pay federal unemployment tax. Our review of payroll transactions showed, however, that M/HLO did not (1) withhold Federal and State employment taxes on housing allowances paid to employees from January 1990 to April 1994, (2) withhold State employment taxes from salaries and benefits of the Liaison Officer from 1990 to 1994, (3) withhold Medicare taxes on salaries and benefits paid to employees from January 1990 to June 1992, and (4) pay its share of Medicare taxes and Federal unemployment taxes. These conditions occurred because M/HLO was not familiar with Federal and State employment tax laws applicable to them. As a result, M/HLO did not comply with Federal and State employment tax requirements, which could lead to possible tax, penalty, and interest assessments.

Accordingly, we recommend that the Secretary of Finance and the Liaison Officer:

14. Contact IRS in writing to discuss and resolve concerns on (a) nonwithholding of federal employment taxes on housing allowance paid to M/HLO employees from January 1990 to April 1994, (b) nonwithholding of employees' share and nonpayment of both employees' and employer's

share of Medicare taxes from January 1990 to June 1992, and (c) nonpayment of Federal Unemployment Tax from 1990 to 1993.

15. Contact the State of Hawaii's Department of Taxation in writing to discuss and resolve concerns on nonwithholding of state employment taxes from the housing allowances of M/HLO employees from January 1990 to April 1994, and the salaries and benefits of the M/HLO liaison officer from 1990 to 1994.

**Department of Finance Response**

The Secretary of Finance concurred with all the 11 recommendations addressed to him (Recommendations 1, 3, 5, 6, 7, and 10 to 15) and has taken corrective measures in areas under his control.

**Marianas/Hawaii Liaison Office Response**

The incumbent Liaison Officer responded that his predecessor is the one who should respond to the exceptions identified in the report because the period covered by the report involved his predecessor. The incumbent Liaison Officer provided, however, a plan of action to address recommendations concerning administrative responsibilities and fiscal policy matters. For Recommendation 4, he stated that these matters will be turned over to DOF and the Attorney General's Office. For Recommendation 9, he recommended that this be considered closed and cited the reasons why recovery of employees' personal call charges seem impossible.

**Office of the Public Auditor  
Comments**

It should be noted that OPA's recommendations are generally directed to agencies and offices and not to individuals, and therefore the responsibilities belong to the current administration.

Based on the responses we received from DOF and M/HLO, we consider 11 recommendations resolved and 4 recommendations closed. The additional information or action needed to consider the other recommendations closed is presented in **APPENDIX E**.

# Introduction

## Background

In March 1994, the Liaison Officer of the Marianas/Hawaii Liaison Office (M/HLO) requested the Office of the Public Auditor (OPA) to audit the financial transactions of M/HLO starting from July 1, 1990 (the day after the last day of the period covered in the last audit) to February 4, 1994. Later, in October 1994, the Liaison Officer requested OPA to audit M/HLO's financial transactions for fiscal year (FY) 1994.

## *Marianas Hawaii/Liaison Office*

1 CMC §2091 established the M/HLO within the Office of the Governor, headed by the Liaison Officer who is appointed by, and is under the direct supervision and control of, the Governor. 1 CMC §2092 provides that the Liaison Officer shall assist the Governor in faithfully executing CNMI laws, including those laws, regulations, and policies regarding student assistance and off-island medical referral activities.

## *Imprest Funds*

The operations and activities of the M/HLO were funded by a \$50,000 imprest fund account until October 1, 1990 when the Department of Finance (DOF) issued the Finance Policy and Procedure Manual 91-1 relating to Imprest Funds. The Manual provided that M/HLO will have two imprest fund accounts as follows: (1) a \$10,000 Operations imprest fund for payment of authorized M/HLO expenditures, and (2) a \$20,000 Medical Referral imprest fund for payment of authorized medical referral activities.

A checking account is maintained for each imprest fund and all M/HLO disbursements are paid out of these accounts. Imprest fund disbursements are replenished through M/HLO's submission of Replenishment Request documents to DOF. After review of documents, DOF requests a bank transfer to the M/HLO imprest fund checking account for the amount allowed.

## *Payroll*

Except for the Liaison Officer's payroll which was paid directly by DOF, M/HLO was responsible for processing the employees' payroll until pay period number 13 of calendar year 1992 (covering June 14 to 27, 1992), when the pay calculation function was transferred to the DOF Payroll Section.

Under the new system, M/HLO sends by fax to DOF Payroll Section the M/HLO's Summary Timesheet for each payperiod which summarizes employee's time charges. DOF enters the time charges in the computer and generates the M/HLO's Pay Calculation Report which shows each employee's gross pay, deductions, and net pay. DOF sends by fax to M/HLO the generated Pay Calculation Report. M/HLO manually prepares payroll checks based on the employees' net pay. Operations imprest fund checks are used to pay for M/HLO employees' payroll, and the Medical Referral imprest fund checks are used to pay for the medical referral staff's payroll.

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**Objectives,  
Scope, and  
Methodology**

**T**he objectives of the audit were to determine whether (1) imprest fund payments were valid, accurate, complete, and complied with applicable laws and regulations, and (2) internal control procedures were adequate.

Our audit covered the period from July 1, 1990 to January 9, 1994 (*i.e.*, the period covering transactions of the previous administration). Transactions regarding the current administration will be covered in a separate audit. To accomplish our objectives, we tested transactions related to payroll, procurement, and travel for compliance with applicable laws and regulations; examined supporting records and documents; compared actual expenditures against budget; reconciled expenditure and bank disbursement reports; reviewed replenishment and bank reconciliation reports, and met with personnel responsible for these matters at the M/HLO, DOF, Office of Personnel Management, and the Office of Management and Budget.

We examined personnel actions of all M/HLO employees and compared them with payroll records. For our detailed tests of payroll computations, we selected four pay periods with the highest charges (one in FY 1992, two in FY 1993, and one in FY 1994). We were not able to select a sample for FY 1991 because payroll records for that year were kept at the M/HLO office in Hawaii. We also examined 62 percent of the total procurement and travel transactions. All payees with transactions exceeding \$1,000 were included in our tests.

Our field work was conducted at the DOF office from March to August 1994. Additional follow-up procedures were performed from August to November 1995 to update the audit. The audit was made, where applicable, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as were considered necessary in the circumstances.

**Prior Audit Coverage**

In 1990, the Office of the Public Auditor conducted an audit of the M/HLO transactions covering the period from October 1, 1989 to June 30, 1990. Significant findings noted include unsupported check exchanges, nonsegregation of duties in payroll preparation, and nonliquidation of travel advances by medical referral patients and escorts. Recommendations were made to the former Liaison Officer, Director of Finance, and Hospital Administrator which include the following: (1) formulate guidelines for check exchange transactions, (2) enforce review of time and attendance reports by the Liaison Officer or a designee, and (3) establish procedures which will enforce timely liquidation of travel advances.

Only the former Director of Finance and former Hospital Administrator responded to the audit report. Included in the July 5, 1991 response by the former Director of Finance were DOF's discontinuance of the practice of check exchanges effective December 3, 1990 and transfer of processing of M/HLO payroll to the DOF Payroll Section effective FY 1992. In the November 13, 1991 memorandum of the former Hospital Administrator, he stated, among other things, that Public Health (1) was currently reviewing CNMI's medical referral policies and procedures, and would institute procedures and coordinate with DOF to correct the deficiencies noted, and (2) would attach written instructions and travel vouchers to travel authorizations to educate travelers in timely liquidation of travel advances.

## Findings and Recommendations

### A. PROCUREMENT

#### Violations of CNMI Procurement Regulations

The CNMI Procurement Regulations provide that all government procurement should be awarded through competitive sealed bidding, except when other methods of procurement specified in the regulations are justified. For procurement over \$2,500 and under \$10,000, bidding is not required; however, selection should be based on price quotations from at least three vendors. Our audit showed, however, that M/HLO purchased (1) a vehicle costing \$17,671 without following competitive sealed bidding procedures, and (2) vehicle insurance and medical equipment totaling \$41,562 without following competitive sealed bidding procedures and obtaining price quotations from at least three vendors as required. This occurred because M/HLO did not comply with the applicable procurement rules and regulations. As a result, there was no assurance that procurement valued at \$59,233 was obtained at the best possible price, thereby violating CNMI Procurement Regulations.

#### Discussion

Section 3-101 of the CNMI Procurement Regulations provides that all government procurement shall be awarded by competitive sealed bidding except when other methods of procurement specified in the regulations are justified, such as small purchases (Section 3-103), sole source procurement (Section 3-104), emergency procurement (Section 3-105), competitive sealed proposals (Section 3-106), etc. Under the competitive sealed bidding method (Section 3-102), bids are solicited through public notice of an Invitation For Bids (IFB), and award is made to the lowest responsive bid by a responsible bidder.

Section 3-103 (3) [Small Purchases] provides that bidding is not required for procurement under \$2,500. For procurement over \$2,500 and under \$10,000, the official with expenditure authority must obtain price quotations from at least three vendors and base selection on competitive price and quality. Any price quotations obtained must be written and documented.

Any government employee who violates the provisions of the CNMI Procurement Regulations is subject to adverse action as may be appropriate under the circumstances. Under Section 6-211 (Civil and Administrative Remedies), the adverse action includes but is not limited to reprimand, suspension without pay, termination of employment, civil injunction, civil suit for damages, return of government money, or criminal prosecution.

### ***Purchase of Vehicle Without Bidding***

On September 30, 1991, M/HLO purchased one 1991 Oldsmobile station wagon for \$17,671 without following competitive sealed bidding procedures. Instead, M/HLO obtained quotations from two vendors (one quoted a 1991 Oldsmobile station wagon for \$17,671 and the other one quoted two types of 1991 Ford Taurus (different colors and features) for \$17,579 and \$16,225). The quotations were forwarded to the Director of Finance who instructed the Liaison Officer to select from the quotations made by the two vendors and submit a sole source justification to DOF - Procurement & Supply (P&S). P&S informed us, however, that no documentation regarding the sole source justification could be found on file. In any cases, sole source procurement was not appropriate in this instance because the vehicle purchased did not contain any unique qualifications which required that it be obtained from only one source. Also, the vehicle purchased was the one with the highest quotation.

### ***Purchase of Vehicle Insurance***

M/HLO purchased vehicle insurance in 1991, 1992, 1993 amounting to \$9,301, \$12,271, and \$10,180, respectively, without following competitive sealed bidding procedures or obtaining price quotations from at least three vendors. No justification could be found on file.

### ***Purchase of Medical Equipment***

In March 1992, M/HLO purchased medical equipment, such as wheelchairs and crutches totaling \$9,810, without obtaining price quotations from at least three vendors. Payments (check nos. 4952 and 5117) were supported only by the vendor's bill.

The above conditions occurred because M/HLO officials did not comply with the applicable procurement rules and regulations. As a result, there was no assurance that procurement valued at \$59,233 was obtained at the best possible price, thereby violating CNMI Procurement Regulations.

### **Conclusion and Recommendation**

M/HLO violated procurement rules and regulations by purchasing a vehicle costing \$17,671, and vehicle insurance and medical equipment totaling \$41,562, without following competitive sealed bidding procedures and obtaining price quotations from at least three vendors as required. Accordingly, we recommend that:

1. The Secretary of Finance issue a directive to the Liaison Officer emphasizing the need to enforce compliance with the CNMI Procurement Regulations. The directive should announce the adverse actions that will be imposed on anyone who willfully violates the regulations.

### **Department of Finance Response**

The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 28, 1997 memorandum to the Liaison Officer regarding adherence to CNMI Procurement Regulations. The memorandum also states the adverse actions that will be imposed on anyone who willfully violates the regulations.

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

We consider Recommendation 1 closed.

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### **Questionable Imprest Fund Payments**

**W**ritten policies and procedures are necessary for medical referral expenses to ensure that only valid and reasonable expenses are paid out of the imprest fund. Our audit showed, however, that M/HLO allowed questionable payments from the imprest fund for (1) ticket upgrades of patients and escorts costing \$9,264 without doctors' justifications, (2) hotel accommodation of patients and escorts which exceeded the usually allowed rates by \$2,711, and (3) funeral service costs of deceased patients amounting to \$36,761 which should not be considered allowable expenses. This occurred because there were no written guidelines covering these types of expenses, and because M/HLO did not consistently follow existing practices or requirements. As a result, the M/HLO imprest fund may have been subjected to waste and abuse, and there was no assurance that imprest fund payments totaling \$48,736 were valid and reasonable.

### **Discussion**

Imprest fund policies and procedures should include written guidelines on the nature of allowable expenses to be paid from the medical referral imprest fund. For example, M/HLO allowed ticket upgrades of patients and escorts under certain conditions. No written documentation, however, was required to justify an upgrade. M/HLO also provided patients and escorts a daily allowance of \$63.32 per day for lodging expenses; however, we could find no basis for such an amount. We were also informed that certain funeral costs of deceased medical referral patients were being paid out of the imprest fund although there was no

written policy authorizing such expenses. To ensure that only valid and reasonable expenses are paid from the imprest fund, written guidelines covering these types of expenses should be developed and implemented.

### ***Payments for Ticket Upgrades for Medical Referral Patients and Escorts Without Justification***

Our review showed payments totaling \$9,264 for cost of ticket upgrades to business class for medical referral patients and escorts, which were not supported by justifications such as doctors' recommendations on the need to upgrade the tickets. Under existing practice by the Department of Public Health's Medical Referral Office, the least expensive round trip air transportation for the medical referral patient is provided unless the patient's condition warrants an upgrade. However, we found no written documentation on file to justify these upgrades authorized by M/HLO.

### ***Overpayment of Hotel Accommodation***

It is the practice of M/HLO to allow medical referral patients and escorts a daily allowance of \$63.32 for lodging. Normally, M/HLO arranges for accommodations and directly pays the hotels. In some cases, patients and escorts pay their lodging and submit the hotel bills to M/HLO for reimbursement. Our review showed, however, payments of hotel accommodation for patients and escorts which exceeded the recognized allowable hotel accommodation rate of \$63.32 per day. The excess payments totaled \$2,711. In one payment (check no. 7280), the room accommodation of one patient from June 1 to July 1, 1993 amounted to \$2,850. This is equivalent to \$95 per day instead of the \$63.32 recognized allowance, resulting in an excess payment of \$950 (\$95 less \$63.32 multiplied by 30 days). In another payment (check no. 7857), the room accommodation was computed from July 24 to August 12, 1993. The patient's departure date, however, was on August 2, 1993. The extra 10 days in billing resulted in a \$633.20 excess payment.

### ***Payments for Funeral Service Costs of Deceased Medical Referral Patients***

Our review also showed payments totaling \$36,761 for cost of funeral services of deceased medical referral patients. However, M/HLO could not provide us any written policies authorizing such expenses. A staff member from the Medical Referral Office orally informed us that professional funeral services (*e.g.*, embalming costs) are chargeable to the program but the cost of caskets and burial garments is not allowable. The staff member told us that there is a written policy to this effect; however, in spite of our repeated follow-ups, the staff member did not provide us with that written policy. Further, our review showed that the cost of funeral services paid by M/HLO not only included the cost of

professional funeral services but also the cost of caskets and burial garments. All costs related to funeral services should be disallowed, since the costs are the personal responsibility of the patient's family and not the government and the public.

### ***Absence of Written Guidelines***

This occurred because there were no written guidelines covering these types of expenses, and because M/HLO did not follow existing practices or requirements. In July 1996, the medical referral program adopted rules and regulations; however, these matters were not covered. As a result, the M/HLO imprest fund may have been subjected to waste and abuse, and there was no assurance that imprest fund payments totaling \$48,736 were valid and reasonable.

### **Conclusion and Recommendation**

M/HLO paid questionable expenses from the imprest fund because of the absence of written guidelines on the nature and type of allowable expenses. Accordingly, we recommend that:

2. The Liaison Officer coordinate with the Secretary of Public Health to develop and implement written policies and procedures for the following matters:
  - a. *Ticket Upgrades.* The guidelines should clearly indicate the documentation requirements for a ticket upgrade of medical referral patients and their escorts.
  - b. *Hotel Accommodations.* The guidelines should state the standard amount of hotel accommodation allowance for medical referral patients and escorts.
  - c. *Funeral Services.* The guidelines should *disallow all funeral service costs* of deceased medical referral patients. The costs are the personal responsibility of the patients' families and not the government and the public.

### **Marianas/Hawaii Liaison Office Response**

The Liaison Officer stated that on (1) ticket upgrade, CHC should amend the newly adopted Medical Referral policy on transportation costs to authorize upgrade through doctor's recommendation with concurrence of the Medical Referral Office; (2) hotel accommodations, consultation with the Secretary of

Public Health has been made; and (3) funeral services, the authority on this matter rests with the Secretary of Public Health; the Liaison Officer, however, supports a written guideline disallowing payment for all funeral services or limiting it to embalming and shipping only. The Liaison Officer provided the Secretary of Public of Health a copy of his letter response to OPA.

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

We consider Recommendation 2 resolved. The additional information needed to close the recommendation is presented in **APPENDIX E**.

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### **Reimbursements of Unsupported Expenses**

**U**nder the DOF imprest fund policies and procedures, payments should not be allowed if supporting documents are missing or inadequate. Our audit showed, however, that M/HLO allowed the reimbursement of expenses from the imprest fund amounting to \$6,069 without adequate supporting documents. This occurred because M/HLO did not follow imprest fund regulations requiring that expenses be adequately supported. Also, DOF processed the imprest fund replenishment request although the expenses were not adequately supported. As a result, there was no assurance that imprest fund expenses totaling \$6,069 were valid and accurate.

### **Discussion**

Section 9 (2) of the CNMI Finance Policy and Procedure Manual No. 91-1 promulgated by the Department of Finance (Imprest Fund Regulations) provides that it is the responsibility of the Disbursing Officer to ensure that payment vouchers certified by the Certifying Officer are correct and supported by appropriate evidentiary documents. Documents submitted to DOF Saipan should be complete and accurate. All the necessary supporting documents should be attached to the Accounts Payable Voucher.

### ***Payments Without Supporting Invoices***

Our audit showed 4 instances where expenses without adequate supporting documents totaling \$6,069 were reimbursed from M/HLO's imprest fund. Two instances represent reimbursement to the former Liaison Officer for the purchase of medical equipment for \$3,652 which was supported only by an order form (check nos. 4347 and 6308). Sales invoice(s) from the vendor(s) should have been obtained to evidence the actual items purchased. Another payment was for pharmacy charges for \$1,307 which were supported by a tape receipt only (check no. 7695). In another instance, only a portion of the payment was supported by a vendor's invoice (check no. 3773). No other documents supporting the rest of the payment totaling \$1,110 were available on file.

This occurred because M/HLO did not follow imprest fund regulations requiring that expenses be adequately supported. Also, DOF processed the imprest fund replenishment request although the expenses were not adequately supported. As a result, there was no assurance that reimbursements of expenses from the imprest fund totaling \$6,069 were valid and accurate.

## **Conclusion and Recommendations**

M/HLO allowed the reimbursement of unsupported expenses in violation of imprest fund regulations. Accordingly, we recommend that:

3. The Secretary of Finance issue a directive to the Liaison Officer emphasizing the need for compliance with imprest fund regulations. The directive should also state that DOF will reject any request for imprest fund replenishment by M/HLO if supporting documents are missing or inadequate. A copy of the directive should be provided to the DOF staff responsible for processing imprest fund replenishment requests.
4. The Liaison Officer investigate and, if necessary, take steps to recover the amounts reimbursed without adequate supporting documents from the responsible officials and employees. Any action taken in this regard should be written and documented.

## **Department of Finance and Marianas/Hawaii Liaison Office Response**

### ***Recommendation 3***

The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 28, 1997 memorandum to the Liaison Officer emphasizing the need for compliance with CNMI Imprest Fund Regulations.

### ***Recommendation 4***

The Liaison Officer responded that the authority on investigating this matter rests with DOF and the Attorney General's Office. M/HLO will consult these offices to pursue this matter.

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

We consider Recommendation 3 closed and Recommendation 4 resolved. The additional information needed to close Recommendation 4 is presented in **APPENDIX E**.

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## B. TRAVEL

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**Public Funds  
Wasted on 4½  
Months Long  
Travel of  
Former Liaison  
Officer**

**G**overnment travel should be limited to official business and completed within a reasonable period of time to prevent the waste and abuse of public funds. Our audit showed, however, that the former Liaison Officer traveled to the CNMI and was paid per diem totaling \$9,964 covering the period October 1989 to February 1990 (about four-and-a-half months). The original travel authorization was amended and extended four times; however, the purposes of the extensions do not appear to warrant the extended travel period. This occurred because of the lack of written policies and procedures for justifying the length of the travel period in relation to travel purpose. As a result, public funds were wasted due to unnecessary extension of travel engaged in by the former Liaison Officer.

### Discussion

Under CNMI Travel Regulations, the Official with Expenditure Authority should ensure that travel costs incurred are for the best interest of the CNMI Government. This includes ensuring that travel is performed within a reasonable time frame corresponding to the purpose of the travel. For example, when attending seminars or meetings with officials, the travel period should cover only the seminar period or specific appointment dates (of course, arrival and departure times should be taken into consideration). Travel with multiple purposes without a specific itinerary and dates covered should not be approved by the Expenditure Authority, and extension of travel periods should be allowed only if adequately justified in relation to the purpose of the travel.

### *Extended Stay of 4½ Months Not Adequately Justified*

During our compliance testing of travel performed by M/HLO officials and employees, we noted a \$1,500 charge to the M/HLO's travel expense account for Travel Authorization (TA) No. A00236 under the name of the former Liaison Officer. Our review of related travel documents showed, however, that the former Liaison Officer liquidated his travel advance for TA No. A00236 [under Travel Voucher (TV) No. 751697] claiming per diem of \$9,964. We noted that of the \$9,964, \$1,500 was charged to the M/HLO's travel expense account and \$8,464 to the Governor's Contingency account.

Our review of TAs showed that the original purpose of the travel was to work on employment contracts of M/HLO and Medical Referral staff and meet with the Governor and Legislature regarding other official matters. The travel was amended four times to extend the travel period from the original 20 days to 132 days and to obligate additional per diem cost from \$1,500 to \$9,964. Travel extensions were authorized by the former Governor. The purposes of the travel

extensions, however, do not appear to warrant the length of the extended travel period. For example, in the initial amendment extending the travel period for an additional 59 days, no specific reason for the extension was given. The only explanation given was “to amend TA #A00236 and to extend the period of travel from 10/22/89 to 12/20/89.” In the subsequent three extensions, several reasons were given such as meetings with new administration officials and department heads. For all of the extensions, however, no supporting documentation listing specific itineraries and appointment dates were available on file. Further, the number of days covered by the extended travel period appeared to be unreasonable. The details of the travel and amendments are shown in **APPENDIX A**.

This occurred because of the lack of written policies and procedures for justifying the length of the travel period in relation to travel purpose. As a result, a significant portion of the \$9,964 per diem cost paid to the Liaison Officer appears to be a waste and abuse of public funds.

## **Conclusion and Recommendation**

Because of the lack of written policies and procedures, unnecessary travel extensions were permitted without adequate justification, resulting in waste of public funds. Accordingly, we recommend that the Secretary of Finance:

5. Develop and implement written policies and procedures which require that all travel and related extensions be supported by specific itineraries and covering dates. For control purposes, travel or travel extensions for long periods, say a month, should require the submission of detailed itineraries. For example, supporting itineraries explaining planned activities for a particular day or number of days in a short sentence or bullet format (*e.g.*, meet with a particular official for this purpose on a particular date) should be required, unless otherwise not practicable (which should also be explained).

## **Department of Finance Response**

The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 29, 1997 memorandum directing the Director of Finance & Accounting to develop written policies and procedures requiring travel and related extensions to be supported by specific itineraries and dates.

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

We consider Recommendation 5 resolved. The additional information needed to close the recommendation is presented in **APPENDIX E**.

**Long-  
Outstanding  
Travel  
Advances  
Remain  
Uncollected**

**C** NMI public laws and regulations require travelers to liquidate their travel advances within 15 days from the completion of travel. Failure to liquidate advances may result in salary deductions. Our audit showed, however, that (1) travel advances of \$5,427 given by M/HLO to four individuals, including a non-government employee (specialist), remained unliquidated for more than three years, and (2) two non-government employees (consultants) failed to refund outstanding travel advances in excess of their travel expenses totaling \$1,624. This occurred because DOF failed to enforce collection of outstanding travel advances through salary deductions and because of the lack of collection procedures for non-government employees. As a result, long-outstanding travel advances totaling at least \$7,051 remain uncollected.

**Discussion**

1 CMC §7407 of the Commonwealth Code provides that within 15 days after completion of government travel, the traveler shall submit a detailed trip report and documented travel expenditures to the approving authority. Any person who fails to make a timely submission shall not receive travel advances until his timely submission is remedied.

In addition, CNMI Travel Regulations require travelers to prepare and submit travel vouchers within ten<sup>1</sup> days after the completion of travel. A travel voucher is required to be submitted when funds for per diem and other expenses have been obligated on a travel authorization. Failure to file a travel voucher when due may result in refusal to issue further travel authorizations to an individual.

Also, as a remedy for failure of employees to liquidate travel advances, the regulations require DOF to initiate collections of outstanding travel advances through salary deductions.

***Unliquidated Travel Advances***

Four individuals, consisting of two M/HLO employees, one specialist, and one official from another government agency, received travel advances from M/HLO totaling \$5,427. The individuals, however, did not liquidate the advances upon completion of travel within the required 15 day period. At the time of our audit, the advances had been outstanding for more than three years (See **APPENDIX B**).

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1 Governor Tenorio, in his directive No. 140 dated November 16, 1994, (amended by Directive No. 154 dated January 19, 1995) requires travel vouchers to be prepared and submitted within 15 days after completion of travel.

Further, we found out that the travel advance given by M/HLO to an official from another government agency while in Hawaii amounting to \$306 was not authorized by the Secretary of Finance. In a memorandum issued by the former Acting Chief of Finance & Accounting to the Liaison Officer, he stated that the official had already been issued a travel advance check under TA No. A12797 by DOF in Saipan. The additional travel advance made by M/HLO was not authorized under TA No. A12797. He further stated that a travel advance against a TA not issued by the office proposing to make the advance is not authorized without the specific approval of the Secretary of Finance. No response was received from the former Liaison Officer.

Also, two consultants received travel advances from M/HLO. Upon liquidation, however, their travel advances exceeded travel expenses by a total of \$1,624 (*i.e.*, \$812 each, based on their travel vouchers). The excess amount, however, was not refunded by the consultants (See **APPENDIX B**).

This occurred because DOF failed to enforce collection of outstanding travel advances through salary deductions, and because of the lack of collection procedures for non-government employees. As a result, long-outstanding travel advances totaling at least \$7,051 remain uncollected.

## **Conclusion and Recommendations**

Long-outstanding travel advances granted by M/HLO remained unliquidated and uncollected because DOF failed to enforce collection of outstanding travel advances through salary deductions. Also, DOF has no collection procedures for non-government employees. Accordingly, we recommend that the Secretary of Finance:

6. Issue a directive to the DOF-Travel Section to identify all long-outstanding travel advances granted by M/HLO to government officials and employees, and initiate collections through salary deductions.
7. Instruct the DOF-Travel Section to follow up collection of excess travel advances from the two non-government employees. Written policies and procedures regarding follow up and collection of long-outstanding advances from non-government employees should also be developed and implemented. The policy should include requiring the Travel Section to identify long-outstanding advances and report names of delinquent non-government employees to the agency which granted the advances. Based on the report, agency heads should follow up the individual's liquidation of advances and the collection of excess travel advances.

### **Department of Finance Response**

The Secretary of Finance concurred with Recommendations 6 and 7 and provided us a copy of his January 29, 1997 memorandum directing the Director of Finance & Accounting to (1) identify all long-outstanding travel advances granted by M/HLO to government officials and employees and initiate collections through salary deductions, and (2) follow up collection of excess travel advances from the two non-government employees, and develop written policies and procedures regarding follow up and collection of long-outstanding advances from non-government employees.

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

We consider Recommendations 6 and 7 resolved. The additional information needed to close the recommendations is presented in **APPENDIX E**.

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**C. ACCOUNTING MATTERS**

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**Personal Long  
Distance Calls  
Not Collected  
From  
Employees**

**P**ersonal long distance calls should be controlled and collected from employees. Our review of three monthly telephone billings out of 36 months billed and paid by M/HLO showed, however, several personal long distance calls totaling about \$200 made by employees. The calls were charged to the M/HLO account and were not collected from the employees. This occurred because of the lack of written policies and procedures for monitoring and controlling long distance phone calls. As a result, a significant part of the \$18,000 communication expenses from fiscal years 1991 to 1993 may have been personal in nature and not related to M/HLO's operations. These personal expenses should be identified and recovered from employees.

**Discussion**

For internal control purposes, written policies and procedures for monitoring office-related as well as personal long distance calls made by employees need to be developed and implemented. This is necessary to ensure that public funds are not used to improperly benefit employees. Among other things, the policies and procedures should include (1) maintenance of a logbook for recording information (*i.e.*, number called, purpose, date and time) on all long distance calls made by employees; (2) assignment of a person responsible for reviewing telephone billings and identifying personal calls based on the logbook; (3) a description of procedures for billing and collection of personal calls made by employees; and (4) restricting access to long distance lines at the office.

***Personal Long Distance Call Charges***

We reviewed a sample of telephone billings paid by M/HLO. Our review showed that, in each of the three monthly billings we sampled, several long distance calls were placed to Saipan. We called some of the telephone numbers listed in the billings (covered by check nos. 5352, 5575, and 7626) and found that these numbers belong to relatives of M/HLO employees. From the numbers verified, about \$200 worth of long distance calls appeared to be personal for the three-month period.

We also reviewed the details of the communication expense account ledger of M/HLO to determine whether reimbursement was received from the employees for these charges. However, the entire billing amounts were charged to the M/HLO and no credits to represent collection of charges were reflected in the account.

This occurred because of the lack of written policies and procedures for monitoring and controlling long distance phone calls. As a result, part of the

\$18,000 communication expenses from fiscal years 1991 to 1993 were personal in nature and not related to M/HLO's operations. These personal expenses should be identified and recovered from employees.

## **Conclusion and Recommendations**

Personal long distance calls should be collected from employees, and written policies and procedures should be prepared to ensure that only office-related long distance calls are paid by M/HLO. Accordingly, we recommend that the Liaison Officer:

8. Establish and implement written policies and procedures for controlling long distance calls placed by employees.<sup>2</sup>
9. Take action to recover charges for personal calls made by employees. This can be accomplished by assigning a staff member to analyze previous telephone billings paid by M/HLO and to identify personal long distance calls made by employees. Written documentation of steps taken by the Liaison Officer to recover charges for personal calls identified by the staff member should be prepared.

## **Marianas/Hawaii Liaison Office Response**

### ***Recommendation 8***

The Liaison Officer concurred with the recommendation and stated that he had taken measures to curtail the problem with unofficial long distance call charges since his assumption in the office. We were provided with a copy of his November 22, 1996 memorandum to all M/HLO staff members reinforcing the current established policies on long distance calls.

### ***Recommendation 9***

The Liaison Officer recommended that this recommendation be considered closed, and cited the reasons why recovery of employees' personal charges seems impossible, as follows: most of the employees involved in this matter are no

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2 The policy should include (a) maintaining a logbook of long distance calls which shows details such as name and telephone numbers of the office and overseas party, date and time of call, and purpose which should clearly identify whether the call is official or personal; (b) assignment of a person responsible for identifying personal long distance calls of employees by comparing telephone billing charges against the logbook; (c) collecting personal call charges from employees; and (d) restricting long distance line access to selected employees to ensure that all long distance calls are registered in the logbook.

longer working with M/HLO, there is no logbook to identify who made personal calls, and to trace personal calls by phone number only cannot justly prove who made the long distance calls.

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

We consider Recommendations 8 and 9 closed. The reasons cited by the Liaison Officer are accepted.

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#### **No Subsidiary Records of Individual Accounts Receivable**

**D**etailed records, such as a subsidiary ledger, should be maintained for individual accounts receivable in order to easily determine outstanding balances. Our audit showed, however, that collection of several advances made by M/HLO could not be verified because DOF recorded and combined individual accounts receivable into one general ledger account and the balances of individual accounts receivable could not be readily determined. This occurred because of the lack of written policies and procedures for monitoring and controlling individual accounts receivable. As a result, there was no assurance that M/HLO receivables totaling \$9,299, as well as other DOF accounts receivable, were collected on a timely basis.

#### **Discussion**

An accounts receivable subsidiary ledger system should be established for monitoring and controlling individual accounts receivable. The system should include (1) maintenance of detailed subsidiary records which show all charges and credits for a particular account in order to readily determine the balances of individual accounts receivable, (2) procedures for identifying past-due accounts, such as the preparation of an aging schedule, and (3) notification of delinquent individuals with long-outstanding balances. Such a system can immediately provide the status of individual accounts receivable and facilitate collection efforts or liquidation of outstanding advances.

#### ***No Accounts Receivable Subsidiary Ledger Maintained***

Advances were recorded by DOF in the General Accounts Receivable Account, which is used to record all receivables of CNMI agencies. DOF, however, did not maintain a subsidiary ledger for the individual accounts comprising the General Accounts Receivable Account. Our review of imprest fund disbursements showed that in September 1992 and March 1993, M/HLO advanced the cost of funeral services, escorts' return tickets to Saipan, and shipping of human remains of two deceased individuals from two families amounting to \$2,183 and \$3,316, respectively. The advances were approved by the Governor under an agreement that the families would reimburse the CNMI

Government upon presentation of invoices. However, because no subsidiary ledger was maintained for the individual accounts receivable, the status of the two receivables cannot be determined unless an analysis of the general ledger is made, which could take a significant amount of time.

In addition, in December 1993, M/HLO paid \$3,800 for the cost of eye prosthesis for a medical referral patient. Payment was recorded under a separate Imprest Fund Accounts Receivable account based on the Acting Chief of Vocational Rehabilitation's memorandum which stated that the medical cost of the patient can be claimed for reimbursement under a Federal grant, either the Vocational Rehabilitation Program or the Medicaid Program, upon submission of necessary documents. Our review of the Imprest Fund Accounts Receivable account showed, however, that the \$3,800 cost remained uncleared.

This occurred because of the lack of written policies and procedures for monitoring and controlling individual accounts receivable. As a result, there was no assurance that M/HLO receivables totaling \$9,299, as well as other DOF account receivables, were collected on a timely basis.

## **Conclusion and Recommendations**

No readily available information on the status of individual accounts can be obtained because of DOF's lack of an adequate accounts receivable subsidiary ledger system. Without such a system, nonpayment of individual receivables may not be detected and could result in loss of public funds. Accordingly, we recommend that the Secretary of Finance:

10. Develop and implement an accounts receivable subsidiary ledger system that can readily provide the status (*i.e.*, current or past-due) and outstanding balances of amounts owed by individuals. The system should include features such as (1) maintenance of detailed records which show all charges and credits for a particular account, (2) procedures for identifying past-due accounts, such as the preparation of an aging schedule, (3) notification of delinquent individuals with long-outstanding or past-due balances, and (4) regular reconciliation of subsidiary records with the general ledger account.
11. Assign a DOF staff member to verify the status of receivables from the two families for funeral expenses amounting to \$2,183 and \$3,316, respectively, and pursue collection if still outstanding. Also, ensure liquidation of the \$3,800 advance for the cost of eye prosthesis of a medical referral patient, and pursue reimbursement from the appropriate federal grantor agency.

## Department of Finance Response

### *Recommendation 10*

The Secretary of Finance concurred with the recommendation. The response stated that DOF is currently in the process of installing a new financial management system that includes an automated accounts receivable subsidiary module. The system should be installed and in use by October 1, 1997. The system is also expected to enable maintaining detailed accounts receivable balances, as well as automating the billing and posting process.

### *Recommendation 11*

The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 29, 1997 memorandum directing the Director of Finance & Accounting to assign a staff member to follow up on the specific receivables noted in the report.

## Office of the Public Auditor Comments

We consider Recommendations 10 and 11 resolved. The additional information needed to close the recommendations is presented in **APPENDIX E**.

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### **Bank Reconciling Items Not Resolved and Adjusted**

**R**econciling items noted in the monthly bank reconciliations should be resolved and adjusted in the books to reflect accurate account balances. Our audit showed, however, that several reconciling items noted in the monthly bank reconciliation of M/HLO's two imprest funds, such as stale-dated checks, bank transfers, returned checks and a bank debit memo, remained outstanding and unadjusted in the books. This occurred because deadlines for resolving bank reconciling items were not established. As a result, (1) M/HLO's operations and medical referral bank account balances recorded in the books as of September 30, 1993 were understated by \$16,537 and \$3,312, respectively, due to unadjusted reconciling items, and (2) a \$1,000 loss may have been incurred because a check returned by the bank due to insufficient funds was not followed up for collection.

### **Discussion**

Monthly bank reconciliations are performed primarily to ensure that all deposits, check payments, and other bank charges are accurately recorded in the books. If properly performed, the reconciliation can detect any unauthorized charges or payments made. Therefore, reconciling items, which represent

differences between the bank and book records, should be analyzed and adjusted immediately.

### ***M/HLO s Bank Reconciling Items Not Resolved and Adjusted***

The DOF-Reconciliation Branch prepares monthly bank reconciliation reports for the Operations and Medical Referral imprest fund bank accounts. Reconciling items noted are referred to the respective divisions or branches, such as the M/HLO, for disposition and adjustment. Some reconciling items noted, such as unrecorded bank transfers, are reported to the DOF-Treasury Division through a memorandum for adjustment. Unposted checks are referred to the DOF-Payable Section for recording.

Our review showed, however, that several reconciling items noted in the monthly bank reconciliation of M/HLO's imprest fund bank accounts, such as stale-dated checks, bank transfers, and a bank debit memo for IRS tax levy, remained unadjusted. In several of the schedules of reconciling items, the DOF - Bank Reconciliation Section noted that the reconciling items were referred to the particular division for verification and adjustment; however, no actions were taken. Also, in November 1990, M/HLO received a debit memo amounting to \$1,000 from the bank for an insufficient funds check from Pan Korea Enterprises that was deposited to the operations imprest fund account. In the September 30, 1991 bank reconciliation, this item remained outstanding and no documents show redeposit of the check.

This occurred because deadlines for resolving bank reconciling items were not established. The lack of an imposed deadline for adjustments has resulted in reconciling items remaining outstanding for a considerable amount of time. In addition, the reconciliation procedures performed by DOF did not ensure monitoring of all outstanding reconciling items until they have been adjusted. Reconciling items of a prior fiscal year, although not yet adjusted or cleared, were no longer included as outstanding reconciling items of the current fiscal year.

As a result, (1) M/HLO's operations and medical referral bank account balances recorded in the books as of September 30, 1993 were understated by \$16,537 and \$3,312, respectively due to unadjusted reconciling items, and (2) a \$1,000 loss may have been incurred because a check returned by the bank due to insufficient funds was not followed up for collection.

### **Conclusion and Recommendations**

Reconciling items noted in the monthly bank reconciliations of M/HLO's imprest fund bank accounts should be resolved and adjusted in the books in a

timely manner to reflect accurate account balances. Accordingly, we recommend that the Secretary of Finance:

12. Establish written policies and procedures to resolve and adjust bank reconciling items in a timely manner. The policy should include (a) setting deadlines for the respective divisions or branches for disposition and adjustment of reconciling items, and (2) monitoring of unreconciled items and continuous follow-up by the DOF - Reconciliation Branch Section until the items are cleared or adjusted.
13. Instruct the DOF - Reconciliation Branch and the appropriate DOF division/section (*i.e.*, Treasury and Accounts Payable) to coordinate and take action to facilitate the adjustment of the outstanding reconciling items in the M/HLO operations and medical referral imprest fund bank accounts. Also, investigate the status of the \$1,000 insufficient funds check of Pan Korea Enterprises and pursue collection, if necessary.

## **Department of Finance Response**

### ***Recommendation 12***

The Secretary of Finance concurred with the recommendation and stated that the conditions noted in the audit had already been corrected. There is an ongoing project to document all DOF policies and procedures, and the Reconciliation Section is to be included. A copy will be provided to OPA when completed.

### ***Recommendation 13***

The Secretary of Finance responded that various DOF divisions are coordinating their efforts to facilitate resolution of bank reconciliation adjustments. The Reconciliation Section will investigate the status of the Pan Korea Enterprises returned check; however, since this item is long-outstanding, DOF's ability to determine its status and seek remedy may be limited.

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

We consider Recommendations 12 and 13 resolved. The additional information needed to close the recommendations is presented in **APPENDIX E**.

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**D. OTHER MATTER**

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**Applicable Tax  
Laws Not  
Complied With**

**F**ederal and Hawaii State laws require withholding of taxes on all wages paid and remittance of taxes withheld accordingly. In addition, employers are required to pay their corresponding share of Medicare tax and to pay federal unemployment tax. Our review of payroll transactions showed, however, that M/HLO did not (1) withhold Federal and State employment taxes on housing allowances paid to employees from January 1990 to April 1994, (2) withhold State employment taxes from salaries and benefits of the Liaison Officer from 1990 to 1994, (3) withhold Medicare taxes on salaries and benefits paid to employees from January 1990 to June 1992, and (4) pay its share of Medicare taxes and Federal unemployment taxes. These conditions occurred because M/HLO was not familiar with Federal and State employment tax laws applicable to them. As a result, M/HLO did not comply with Federal and State employment tax requirements, which could lead to possible tax, penalty, and interest assessments.

**Discussion**

The United States Internal Revenue Code (IRC) requires employers to comply with the following tax requirements.

1. *Income Tax Collected at Source.* Sec. 3402(a) of the IRC provides that every employer making payment of wages shall deduct and withhold from such wages a tax determined in accordance with tables or computation procedures. Wages as defined in the IRC shall include all pay given to an employee including salaries, vacation, allowances, bonuses, commissions, and fringe benefits paid in cash or in other forms for services performed.
2. *Medicare Tax.* Sec. 3102(a) of the IRC provides that Medicare tax shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages as and when paid. Also, Sec. 3111(b) of the IRC provides that employers are required to contribute to Medicare the same amount contributed by their employees. The medicare tax rate is 1.45% for both employer and employee.
3. *Federal Unemployment Taxes.* Sec. 3301 of the IRC provides that every employer for each calendar year should pay an excise tax equal to 6.2 percent of total wages paid to employees during a calendar year.

The State of Hawaii's withholding law requires employers to deduct and withhold State income tax from wages paid to employees and remit the withheld amount to the State Government.

Existing laws also provide statutes of limitations for assessing tax deficiencies. The United States Code (USC) provides that the time for assessing deficiencies and for enforcing assessment does not expire until after three years and ten years from filing dates, respectively, (26 USC §6501 (a) and §6502 (a)). However, in case of nonfiling, the time is unlimited (26 USC §6501 (c)). The State of Hawaii's withholding law (235-111) provides that the statute of limitations for assessing deficiencies, except in cases of fraud, failure to file return, or agreement, is three years, commencing from date of filing or due date, whichever is later.

### ***Noncompliance with Federal and State Employment Tax Requirements***

Our review showed that M/HLO did not comply with various tax requirements, discussed as follows.

#### **1. Federal and State Employee Income Taxes Not Withheld From Employees**

a. **Employees' Housing Allowance** - Housing allowance provided to M/HLO employees is a fringe benefit and part of the compensation package which is subject to both Federal and State withholding taxes in accordance with Section 3401 of the IRC and State of Hawaii tax laws. Our review showed, however, that M/HLO did not withhold Federal and State employment taxes from the monthly housing allowance paid to its employees from January 1990 to April 1994.

b. **Liaison Officer's Salaries and Benefits** - Salaries and benefits provided to the Liaison Officer are subject to both Federal and State withholding taxes in accordance with Section 3401 of the IRC and the State of Hawaii tax laws. Our review showed, however, that M/HLO did not withhold State employment taxes on salaries and benefits paid to the M/HLO Liaison Officer from 1990 to 1994.

In May 1996, DOF requested clarification from the State of Hawaii's Department of Taxation on whether certain compensation paid to CNMI employees who are working in Hawaii is considered "wages" within the meaning of Hawaii law. A response was received in July 1996 stating that wages for services rendered in the State of Hawaii, housing allowance, and "Outside Commonwealth Differential" are considered wages and are generally subject to withholding. DOF retroactively (starting 1995) withheld taxes from the Liaison Officer's salary and benefits.

2. Employee Medicare Taxes Not Withheld and Employer's Share in Medicare Taxes Not Paid

M/HLO did not withhold Medicare taxes from salaries paid to employees and pay its share on Medicare taxes from January 1990 to June 1992. The amount of Medicare taxes owed to IRS is about \$9,950 (both employees' and employer's share) from January 1990 to June 1992, excluding penalty and interest.

3. Federal Unemployment Tax Not Paid

M/HLO did not pay Federal Unemployment Tax for calendar years 1990 to 1993. This occurred because M/HLO believed that participation in the Federal Unemployment Insurance Program was optional. Based on our suggestion, M/HLO on August 12, 1994 sent a letter to IRS to clarify whether M/HLO is subject to Federal Unemployment Tax. No response, however, was received by M/HLO. The amount of Federal Unemployment Tax that could be owed to IRS is about \$67,506 from 1990 to 1993, excluding penalty and interest.

These conditions occurred because M/HLO was not familiar with Federal and State employment tax laws applicable to them. As a result, M/HLO did not comply with Federal and State employment tax requirements, which could lead to possible tax, penalty, and interest assessments.

## Conclusion and Recommendations

M/HLO was not fully aware of all the requirements on employment taxes imposed by the Federal government and the State of Hawaii. Consequently, M/HLO did not comply with various tax requirements which could lead to possible assessments by the IRS and the State of Hawaii's Department of Taxation. Although several tax requirements are already being complied with at the present time, noncompliance during the prior years should be resolved.

Accordingly, we recommend that the Secretary of Finance and the Liaison Officer:

14. Contact IRS in writing to discuss and resolve concerns on (a) nonwithholding of federal employment taxes on housing allowance paid to M/HLO employees from January 1990 to April 1994, (b) nonwithholding of employees' share and nonpayment of both employees' and employer's share of Medicare taxes from January 1990 to June 1992, and (c) nonpayment of Federal Unemployment Tax from 1990 to 1993.

15. Contact the State of Hawaii's Department of Taxation in writing to discuss and resolve concerns on nonwithholding of state employment taxes from the housing allowances of M/HLO employees from January 1990 to April 1994, and the salaries and benefits of the M/HLO liaison officer from 1990 to 1994.

### **Department of Finance and Marianas/Hawaii Liaison Office Response**

The Secretary of Finance and the Liaison Officer concurred with Recommendations 14 and 15. The Liaison Officer has provided the Secretary of Finance with the details of payments made to M/HLO employees during the period in question. The Secretary's Office, with the assistance of the Director of Revenue & Taxation, will use the information to formulate a written request to the IRS and the State of Hawaii's Department of Taxation for a determination of any potential liabilities.

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

We consider Recommendations 14 and 15 resolved. The additional information needed to close the recommendations is presented in **APPENDIX E**.

## APPENDIX A

**Audit of Marianas Hawaii/Liaison Office  
Details of the Former Liaison Officer s TA No. A00236  
Travel in the CNMI from 10/2/89 to 2/12/90**

TA No.	TA Date	Travel Purpose	Travel Period	Per Diem Cost
A00236	10/30/89	Work on M/HLO's and Medical Referral office staff employment contracts for FY 1990, discuss expenditure ceiling for FY 1990, discuss with Governor and Legislature possible purchase of office space for M/HLO office and apartment for Medical Referral.	10-2-89 to 10/22/89  (20 days)	\$1,500  (20 days x \$75)
A00236-1	11/14/89	To amend TA#A00236 to extend the period of travel from 10/22/89 to 12/20/89	10/22/89 to 12/20/89  (59 days)	\$4,425  (59 days x \$75)
A00236-2	1/2/90	To amend TA#A00236-1 to extend the period of travel from 12/21/89 to 1/8/90. To participate in the Transition and Inauguration of New Governor.	12/21/89 to 1/8/90  (18 days)	\$1,350  (18 days x \$75)
A00236-3	1/1/90	To amend TA#A00236-2 to extend the period of travel from 1/9/90 to 2/12/90. To meet with Governor and Lt. Governor and new Department Directors & Agency heads. To work on proposed change in the operation and expansion of M/HLO.	1/9/90 to 2/12/90  (34 days)	\$1,800  (34 days x \$75 = \$2,550 under by \$750)
A00236-4	3/5/90	Amended to increase obligation as requested by the Department of Finance	based on liquidation	\$888.75
T O T A L			133 days	\$9,963.75

## APPENDIX B

**Audit of Marianas Hawaii/Liaison Office  
Summary of Outstanding Travel Advances**

**I. WITHOUT LIQUIDATION**

TA #	TRAVELER POSITION	DATE TRAVEL COMPLETED	CHECK NO.	CHECK AMOUNT
<b>M/HLO EMPLOYEES</b>				
A12125	M/HLO Administrative Officer	7/13/91	5513	\$1,940
-	M/HLO Administrative Assistant	6/7/91	5462	809
<b>SPECIALIST</b>				
A11273	East-West Center Water Specialist	3/27/91	5355	2,372
<b>OFFICIAL FROM OTHER GOV'T. AGENCY</b>				
A12797	Former Director of the Department of Community and Cultural Affairs	10/5/91	5636	306
Total				\$5,427

**II. TRAVEL ADVANCES EXCEEDED COMPUTED PER DIEM**

TA #	TRAVELER POSITION	DATE TRAVEL COMPLETED	LIQUIDATION DATE	OUTSTANDING AMOUNT
<b>CONSULTANTS</b>				
A11209	Special Consultant to the Governor	3/30/91	4/12/91	812
A11210	Special Consultant to the Governor	3/30/91	4/12/91	812
Total				\$1,624
Over-all Total				\$7,051

**APPENDIX C**

Note: APPENDIX C (pages 29 to 36), which contains the Secretary of Finance's letter response dated February 3, 1997, was intentionally omitted to reduce this publication's file size. The response is available at OPA upon request.

**APPENDIX D**

Note: APPENDIX D (pages 37 to 50), which contains the M/HLO Liaison Officer's letter response dated November 26, 1996, was intentionally omitted to reduce this publication's file size. The response is available at OPA upon request.

**STATUS OF RECOMMENDATIONS**

	Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
1.	Issue a directive to the Liaison Officer emphasizing the need to enforce compliance with the CNMI Procurement Regulations.	DOF	Closed	<p>The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 28, 1997 memorandum to the Liaison Officer regarding adherence to CNMI Procurement Regulations. The memorandum also states the adverse actions that will be imposed on anyone who willfully violates the regulations.</p> <p><b>OPA Comment</b></p> <p>No additional action required.</p>
2.	The Liaison Officer coordinate with the Secretary of Public Health to develop and implement written policies and procedures on ticket upgrades, hotel accommodations, and funeral services.	M/HLO and CHC	Resolved	<p>The Liaison Officer stated that on (1) ticket upgrade, CHC should amend the newly adopted Medical Referral policy on transportation costs to authorize upgrade through doctor's recommendation with concurrence of the Medical Referral Office; (2) hotel accommodations, consultation with the Secretary of Public Health has been made; and (3) funeral services, the authority on this matter rests with the Secretary of Public Health; the Liaison Officer, however, supports a written guideline disallowing payment for all funeral services or limiting it to embalming and shipping only. The Liaison Officer provided the Secretary of Public of Health a copy of his letter response to OPA.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Public Health should provide OPA with a copy of the written policies and procedures on ticket upgrades, hotel accommodations, and funeral services.</p>
3.	Issue a directive to the Liaison Officer emphasizing the need for compliance with imprest fund regulations.	DOF	Closed	<p>The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 28, 1997 memorandum to the Liaison Officer emphasizing the need for compliance with CNMI Imprest Fund Regulations.</p> <p><b>OPA Comment</b></p> <p>No additional action required.</p>

**STATUS OF RECOMMENDATIONS**

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
<p>4. Investigate and, if necessary, take steps to recover the amounts reimbursed without adequate supporting documents from the responsible officials and employees. Any action taken in this regard should be written and documented.</p>	M/HLO	Resolved	<p>The Liaison Officer responded that the authority on investigating this matter rests with DOF and the Attorney General's Office. M/HLO will consult these offices to pursue this matter.</p> <p><b>OPA Comment</b></p> <p>The Liaison Officer should provide OPA with a copy of their referral letter to the AG and, subsequently, advise OPA of the results of the AG's actions.</p>
<p>5. Develop and implement written policies and procedures which require that all travel and related extensions be supported by specific itineraries and covering dates.</p>	DOF	Resolved	<p>The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 29, 1997 memorandum directing the Director of Finance &amp; Accounting to develop written policies and procedures requiring travel and related extensions to be supported by specific itineraries and dates.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Finance should provide OPA with a copy of these policies and procedures.</p>
<p>6. Issue a directive to the DOF-Travel Section to identify all long-outstanding travel advances granted by M/HLO to government officials and employees, and initiate collections through salary deductions.</p>	DOF	Resolved	<p>The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 29, 1997 memorandum directing the Director of Finance &amp; Accounting to identify all long-outstanding travel advances granted by M/HLO to government officials and employees and initiate collections through salary deductions.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Finance should provide OPA with the results of Finance &amp; Accounting's actions.</p>

**STATUS OF RECOMMENDATIONS**

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
<p>7. Instruct the DOF-Travel Section to follow up collection of excess travel advances from the two non-government employees. Written policies and procedures regarding follow up and collection of long-outstanding advances from non-government employees should also be developed and implemented.</p>	DOF	Resolved	<p>The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 29, 1997 memorandum directing the Director of Finance &amp; Accounting to follow up collection of excess travel advances from the two non-government employees, and develop written policies and procedures regarding follow up and collection of long-outstanding advances from non-government employees.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Finance should provide OPA with the results of Finance &amp; Accounting 's actions.</p>
<p>8. Establish and implement written policies and procedures for controlling long distance calls placed by employees.</p>	M/HLO	Closed	<p>The Liaison Officer concurred with the recommendation and stated that he had taken measures to curtail the problem with unofficial long distance call charges since his assumption in the office. We were provided with a copy of his November 22, 1996 memorandum to all M/HLO staff members reinforcing the current established policies on long distance calls.</p> <p><b>OPA Comment</b></p> <p>No additional action required.</p>
<p>9. Take action to recover charges for personal calls made by employees.</p>	M/HLO	Closed	<p>The Liaison Officer recommended that this recommendation be considered closed, and cited the reasons why recovery of employees' personal charges seems impossible, as follows: most of the employees involved in this matter are no longer working with M/HLO, there is no logbook to identify who made personal calls, and to trace personal calls by phone number only cannot justly prove who made the long distance calls.</p> <p><b>OPA Comment</b></p> <p>No additional action required. The reasons cited by the Liaison Officer are accepted.</p>

**STATUS OF RECOMMENDATIONS**

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
10. Develop and implement an accounts receivable subsidiary ledger system that can readily provide the status ( <i>i.e.</i> , current or past-due) and outstanding balances of amounts owed by individuals.	DOF	Resolved	<p>The Secretary of Finance stated that DOF is currently in the process of installing a new financial management system that includes an automated accounts receivable subsidiary module. The system should be installed and in use by October 1, 1997. The system is also expected to enable maintaining detailed accounts receivable balances, as well as automating the billing and posting process.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Finance should notify OPA when the new financial management system is already operational and provide OPA a copy of the manual describing the automated accounts receivable subsidiary module.</p>
11. Assign a DOF staff member to verify the status of receivables from two families for funeral expenses amounting to \$2,183 and \$3,316, respectively, and pursue collection if still outstanding.	DOF	Resolved	<p>The Secretary of Finance concurred with the recommendation, and provided us a copy of his January 29, 1997 memorandum directing the Director of Finance &amp; Accounting to assign a staff member to follow up on the specific receivables noted in the report.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Finance should provide OPA with the results of Finance &amp; Accounting 's actions.</p>
12. Establish written policies and procedures to resolve and adjust bank reconciling items in a timely manner.	DOF	Resolved	<p>The Secretary of Finance concurred with the recommendation and stated that the conditions noted in the audit had already been corrected. There is an on going project to document all DOF policies and procedures, and the Reconciliation Section is to be included. A copy will be provided to OPA when completed.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Finance should provide OPA with the copy of these policies and procedures.</p>

**STATUS OF RECOMMENDATIONS**

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
<p>13. Instruct the DOF - Reconciliation Branch and the appropriate DOF division/section (<i>i.e.</i>, Treasury and Accounts Payable) to coordinate and take action to facilitate the adjustment of the outstanding reconciling items in the M/HLO operations and medical referral imprest fund bank accounts. Also, investigate the status of the \$1,000 insufficient funds check of Pan Korea Enterprises and pursue collection, if necessary.</p>	DOF	Resolved	<p>The Secretary of Finance responded that various DOF divisions are coordinating their efforts to facilitate resolution of bank reconciliation adjustments. The Reconciliation Section will investigate the status of the Pan Korea Enterprises returned check; however, since this item is long-outstanding, DOF's ability to determine its status and seek remedy may be limited.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Finance should provide OPA with the results of Reconciliation Section's actions.</p>
<p>14. Contact IRS in writing to discuss and resolve concerns on (a) nonwithholding of federal employment taxes on housing allowance paid to M/HLO employees from January 1990 to April 1994, (b) nonwithholding of employees' share and nonpayment of both employees' and employer's share of Medicare taxes from January 1990 to June 1992, and (c) nonpayment of Federal Unemployment Tax from 1990 to 1993.</p>	DOF and M/HLO	Resolved	<p>The Secretary of Finance and the Liaison Officer concurred with the recommendation. The Liaison Officer has provided the Secretary of Finance with the details of payments made to M/HLO employees during the period in question. The Secretary's Office, with the assistance of the Director of Revenue &amp; Taxation, will use the information to formulate a written request to the IRS for a determination of any potential liabilities.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Finance should provide OPA with a copy of the letter to IRS.</p>
<p>15. Contact the State of Hawaii's Department of Taxation in writing to discuss and resolve concerns on nonwithholding of state employment taxes from the housing allowances of M/HLO employees from January 1990 to April 1994, and the salaries and benefits of the M/HLO liaison officer from 1990 to 1994.</p>	DOF and M/HLO	Resolved	<p>The Secretary of Finance and the Liaison Officer concurred with the recommendation. The Liaison Officer has provided the Secretary of Finance with the details of payments made to M/HLO employees during the period in question. The Secretary's Office, with the assistance of the Director of Revenue &amp; Taxation, will use the information to formulate a written request to the State of Hawaii's Department of Taxation for a determination of any potential liabilities.</p> <p><b>OPA Comment</b></p> <p>The Secretary of Finance should provide OPA with a copy of the letter to the State of Hawaii's Department of Taxation.</p>