



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

Internet Address: <http://www.opacnmi.com>

2nd Floor J. E. Tenorio Building, Middle Road

Gualo Rai, Saipan, MP 96950

Mailing Address:
P.O. Box 1399
Saipan, MP 96950

E-mail Address:
opa@mtccnmi.com

☎ (670) 234-6481/2
Fax: (670) 234-7812

June 17, 1997

The Honorable Froilan C. Tenorio
Governor
Commonwealth of the Northern Mariana Islands

Dear Governor Tenorio:

Subject: **Final Report - Audit and Investigation of Improper Procurement and Payment For Renovation of the Department of Labor and Immigration (DOLI) Detention Center (Report No. AR-97-09)**

The enclosed final report presents the results of our audit and investigation of improper procurement and payment for renovation of DOLI's detention center for CNMI illegal aliens. The objective of our audit and investigation was to determine whether procurement and payment of services for renovation of DOLI's detention center was made in compliance with applicable CNMI laws and regulations.

Our audit showed that renovation of the DOLI detention center was undertaken (1) without competitive bidding, and (2) without the required contract documentation and approvals. Moreover, (3) funds appropriated for furniture and fixtures of the Special Assistant for Administration (SAA) were improperly used to pay for the renovation project which had been zero-funded by the Legislature. This occurred because the Secretary of Labor and Immigration, the SAA, the Special Assistant for Management and Budget (SAMB), and the Secretary of Finance failed to perform their assigned duties and responsibilities. As a result, (1) the existing safeguards in the CNMI procurement system were overridden by high-level officials in violation of laws and regulations, and (2) public funds amounting to \$70,000 were spent without competition seeking the lowest cost for the CNMI, and without protection from possible fraudulent transactions.

We recommend that the Governor (1) impose appropriate administrative sanctions against the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF, for their failure to properly administer their responsibilities, for disregarding the CNMI Procurement Regulations, and for violating the Planning and Budgeting Act, and (2) issue directives to the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF informing them of their respective violations and requiring them to perform their assigned duties and responsibilities without exception. The directives should emphasize compliance with CNMI Procurement Regulations and the Planning and Budgeting Act for all future purchases, calling particular attention to the requirements for competitive bidding, execution of contracts or POs, and referral to appropriate officials for review, certification, and approval.

In his letter response dated June 4, 1997, the Governor agreed with our findings (See **Appendix C**). On the same date, the Governor issued memoranda to the SAA, the SAMB, the Secretary of DOLI, and the Secretary of Finance, directing them to fully comply with all pertinent CNMI laws including Procurement & Supply Regulations and the Planning and Budgeting Act for all current and future contract matters. The memoranda also asked for explanations from the officials before any disciplinary action is taken (most likely a reprimand) as recommended in the report (See **Appendix D, E, F & G**).

Based on the Governor's letter response and on his memoranda to respective officials, we consider Recommendation 1 resolved pending receipt of evidence of administrative sanctions imposed against the SAA, the SAMB, the Secretary of DOLI, and the Secretary of Finance, and Recommendation 2 as closed and implemented. The additional information or action needed to consider Recommendation 1 closed is presented in **Appendix H**. We also understand that our findings were referred by the Office of the Governor to the Attorney General's Office for further investigation.

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

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

Sincerely,

ORIGINAL SIGNED

Leo L. LaMotte
Public Auditor, CNMI

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

CONTENTS

EXECUTIVE SUMMARY i

INTRODUCTION

Background 1
Objectives, Scope, and Methodology 4
Prior Audit Coverage 4

FINDINGS AND RECOMMENDATIONS

DOLI Renovation Project Was Improperly Procured And
Paid In Violation of CNMI Laws and Regulations 5

APPENDICES

A Director of Procurement & Supply Letter
Dated October 11, 1996 12

B Contractor's Price Quotation (Which Served As
Contract Agreement) Dated July 26, 1996 13

C Governor's Letter Response Dated June 4, 1997 15

D Governor's Memorandum to the Special Assistant for
Management and Budget 16

E Governor's Memorandum to the Special Assistant for
Administration 17

G Governor's Memorandum to the Secretary of Finance 18

H Governor's Memorandum to the Secretary of Labor
Immigration 19

I Status of Recommendations 20

EXECUTIVE SUMMARY

Our audit showed that renovation of the DOLI detention center was undertaken (1) without competitive bidding, and (2) without the required contract documentation and approvals. Moreover, (3) funds appropriated for furniture and fixtures of the Special Assistant for Administration (SAA) were improperly used to pay for the renovation project which had been zero-funded by the Legislature. This occurred because the Secretary of Labor and Immigration, the SAA, the Special Assistant for Management and Budget (SAMB), and the Secretary of the Department of Finance (DOF) failed to perform their assigned duties and responsibilities. As a result, (1) the existing safeguards in the CNMI procurement system were overridden by high-levels officials in violation of laws and regulations, and (2) public funds amounting to \$70,000 were spent without competition seeking the lowest cost for the CNMI, and without protection from possible fraudulent transactions.

On October 5, 1996, the Office of the Public Auditor (OPA) received information from the Hotline alleging violation of the CNMI Procurement Regulations by the Governor's Special Assistant for Administration (SAA). The violations allegedly resulted from the SAA's agreement with a contractor, Double M Limited, for the renovation and improvement of DOLI's newly leased detention center without competitive bidding. Upon preliminary investigation, OPA determined that an audit and more comprehensive investigation of the matter should be conducted.

On March 1, 1996, the SAA, the Special Assistant for Management and Budget (SAMB), and the Secretary of DOLI entered into a lease agreement for the lease of a commercial building

intended to be DOLI's detention center for CNMI illegal aliens. The term of the lease was for three years commencing on March 1, 1996. On July 26, 1996, the three officials accepted and signed a price quotation submitted by Double M Limited for the partitioning and fencing of the proposed DOLI detention center. The price quotation served as the agreement for the renovation project.

The objective of our audit and investigation was to determine whether the procurement and payment of services for renovation of DOLI's detention center were made in compliance with applicable CNMI laws and regulations.

DOLI Renovation Project Was Improperly Procured And Paid In Violation Of CNMI Laws And Regulations

No government contract is valid unless it complies with the CNMI Procurement Regulations. One of the regulation requirements is that all government procurement should be awarded through competitive bidding (unless other procurement methods are justified), and that the procurement should be certified and approved by designated government officials. The Planning and Budgeting Act also provides that no public funds should be expended unless appropriated, and that public funds should be used only for the public purposes for which the funds were appropriated. Our audit showed, however, that renovation of the DOLI detention center was undertaken (1) without competitive bidding, and (2) without the required contract documentation and approvals. Moreover, (3) funds appropriated for furniture and fixtures of the Special Assistant for Administration (SAA) were improperly used to pay for the renovation project which had been zero-funded by the Legislature. This occurred because the Secretary of Labor and Immigration, the SAA, the SAMB, and the Secretary of Finance failed to perform their assigned duties and responsibilities. As a result, (1) the existing safeguards in the CNMI procurement system were overridden by high-level officials in violation of laws and regulations, and (2) public funds amounting to \$70,000 were spent without competition seeking the lowest cost for the CNMI, and without protection from possible fraudulent transactions.

Accordingly, we recommend that the Governor:

1. Impose appropriate administrative sanctions against the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF, for their failure to properly administer their responsibilities, for disregarding the CNMI Procurement Regulations, and for violating the Planning and Budgeting Act.
2. Issue directives to the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF informing them of their respective violations and requiring them to perform their assigned duties and responsibilities without exception. The directives should emphasize compliance with CNMI Procurement Regulations and the Planning and Budgeting Act for all future purchases, calling particular attention to the requirements for competitive bidding, execution of contracts or POs, and referral to appropriate officials for review, certification, and approval. In addition, the Governor should:
 - a. Instruct the SAA, who was primarily responsible for negotiating with the contractor and authorizing payment, to review and observe all applicable CNMI laws before expending any funds from his office.

- b. Instruct the Secretary of DOF to review all payment requests without exception. The practice of accommodating payment requests by high-level officials should be stopped. All requests should go through the procedures required by CNMI laws and regulations.
- c. Instruct the Special Assistant for Management and Budget to authorize disbursements of government funds pursuant only to the authority of CNMI laws and regulations.

and the Planning and Budgeting Act, for all current and future contract matters. The memoranda also asked for explanations from the officials before any administrative sanction is imposed (most likely a reprimand) as recommended in the report (See **Appendix D, E, F, & G**).

OPA Comments

Based on the Governor's letter response and on his memoranda to respective officials, OPA considers Recommendation 1 resolved pending receipt of evidence of appropriate administrative sanctions imposed against the SAA, the SAMB, the Secretary of DOLI, and the Secretary of Finance, and Recommendation 2 as closed and implemented. The additional information or action needed to consider Recommendation 1 closed is presented in **Appendix H**. We also understand that our findings were referred by the Office of the Governor to the Attorney General's Office for further investigation.

Governor's Office Response

In his letter response dated June 4, 1997, the Governor agreed with OPA's findings (See **Appendix C**).

On the same date, the Governor issued memoranda to the SAA, the SAMB, the Secretary of DOLI, and the Secretary of Finance directing them to fully comply with all pertinent CNMI laws, including Procurement and Supply Regulations

Introduction

Background

Under the Commonwealth Auditing Act, the Office of the Public Auditor (OPA) has a special duty to detect and prevent fraud, waste, and abuse of public funds. To enhance performance of this duty, OPA established a 24-hour telephone hotline which encourages the public to anonymously report instances of government fraud, theft, waste, and abuse. Information obtained from the Hotline is screened and investigated by OPA.

On October 5, 1996, OPA received information from the Hotline concerning allegations of violations of the CNMI Procurement Regulations by the Governor's Special Assistant for Administration (SAA). The violations allegedly resulted from the SAA's agreement with a contractor, Double M Limited, for the renovation and improvement of the Department of Labor and Immigration's (DOLI) newly leased detention center without competitive bidding. Upon preliminary investigation, OPA determined that an audit and more comprehensive investigation of the matter should be conducted.

DOLI Detention Center

On March 1, 1996, the SAA, the Special Assistant for Management and Budget (SAMB), and the Secretary of DOLI entered into a lease agreement for the lease of a commercial building intended to be DOLI's detention center for CNMI illegal aliens. The term of the lease was for three years commencing on March 1, 1996. On July 26, 1996, the three officials accepted and signed a price quotation submitted by Double M Limited for the partitioning and fencing of the proposed DOLI detention center. The price quotation served as the agreement for the renovation project.

Special Assistant for Administration to the Governor (SAA)

1 CMC §2051 established, within the Governor's office, the position of the Special Assistant for Administration (SAA). The SAA is appointed and serves at the pleasure of the Governor. The primary duties of the SAA are to assist the Governor and Lt. Governor in the management of the Executive Office, handle sensitive and confidential administrative matters, and *manage assigned projects* including financial and *contract involvement* and the organization of legal administrative matters. The SAA oversees and helps in the management of all executive departments, including the Department of Labor and Immigration.

Accordingly, as one of the executive offices, SAA's procurement of supplies, goods, equipment and services is governed by the CNMI Procurement Regulations.

Special Assistant for Management and Budget (SAMB)

1 CMC §2051 also established, within the Governor's office, the position of the Special Assistant for Planning and Budget. Section 101 of the Governor's Executive Order 94-3 re-designated the title of this position as Special Assistant for Management and Budget (SAMB). The SAMB is also appointed and serves at the pleasure of the Governor. The primary responsibility of the SAMB is to improve management of the Commonwealth Government. The SAMB is charged with ensuring discipline in government programs and activities, *verifying consistency with the Governor's policies and budget*, improving government efficiency by reducing duplication among agencies, and assisting department heads with internal organization and management activities. SAMB is also charged with the *distribution and allotment of local funds appropriated by the Legislature*.

Secretary of Labor and Immigration

Section 301 of the Governor's Executive Order 94-3 established the Department of Labor and Immigration to be headed by the Secretary of Labor and Immigration. Certain functions of the Secretary of Commerce and the former Office of Immigration and Naturalization relating to enforcement and compliance with labor and immigration laws were transferred to the Secretary. The Secretary serves as expenditure authority and is responsible for all procurement made by the Department of Labor and Immigration.

Secretary of the Department of Finance

1 CMC §2551 established the Commonwealth Department of Finance headed by a Director of Finance who is appointed by the Governor with the advice and consent of the Senate. Section 106 of the Governor's Executive Order 94-3 re-designated the title of Director to Secretary. The primary responsibilities of the Department of Finance under 1 CMC §2553 include but are not limited to collecting, receiving, and depositing all locally raised revenues and federal government funds, establishing and maintaining the books of the Commonwealth, *disbursing funds pursuant to the authority of law, and controlling and being responsible for procurement and supply in the Commonwealth*. Accordingly,

§ 2-104 of the Procurement Regulations provides that all contracts be approved by the Secretary of Finance or his designee who shall *certify the availability of funds*. Consequently, if the Secretary, upon review, finds any aspect of the contract to be deficient or defective in any respect, he shall return the contract to the Chief (now Director) of Procurement and Supply for appropriate resolution with the contracting officer.



DOLI's Detention Center prior to renovation



DOLI's Detention Center after renovation

**Objectives,
Scope, and
Methodology**

The objective of our audit and investigation was to determine whether the procurement and payment of services for renovation of DOLI's detention center were made in compliance with applicable CNMI laws and regulations.

The scope of our review was limited to transactions relating to the renovation of DOLI's newly leased detention center for CNMI illegal aliens. As part of our review, we examined related payment vouchers and the price quotation which served as the agreement between DOLI and the Contractor, Double M Limited, for the renovation of the DOLI detention center which was not operational as of January 10, 1997. We also interviewed officials who were knowledgeable about the transactions. Review of all applicable CNMI laws and regulations was also an integral part of our audit.

Our audit was made, where applicable, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as were considered necessary under the circumstances.

**Prior Audit
Coverage**

This is OPA's initial audit and investigation of transactions relating to the renovation of the DOLI detention center.

Findings and Recommendations

DOLI Renovation Project Was Improperly Procured and Paid In Violation of CNMI Laws and Regulations

**Renovation
Project Costing
\$70,000 Was
Undertaken
Without
Competition,
Without
Authorized
Funding, and
Without A
Valid
Government
Contract**

No government contract is valid unless it complies with the CNMI Procurement Regulations. One of the regulation requirements is that all government procurement should be awarded through competitive bidding (unless other procurement methods are justified), and that the procurement should be certified and approved by designated government officials. The Planning and Budgeting Act also provides that no expenditure of public funds should be made unless appropriated, and that public funds should be used only for the public purposes for which the funds were appropriated. Our audit showed, however, that renovation of the DOLI detention center was undertaken (1) without competitive bidding, and (2) without the required contract documentation and approvals. Moreover, (3) funds appropriated for furniture and fixtures of the Special Assistant for Administration (SAA) were improperly used to pay for the renovation project which had been zero-funded by the Legislature. This occurred because the Secretary of Labor and Immigration, the SAA, the Special Assistant for Management and Budget (SAMB), and the Secretary of the Department of Finance (DOF) failed to perform their assigned duties and responsibilities. As a result, (1) the existing safeguards in the CNMI procurement system were overridden by high-level officials in violation of laws and regulations, and (2) public funds amounting to \$70,000 were spent without competition seeking the lowest cost for the CNMI, and without protection from possible fraudulent transactions.

Discussion

The following sections of the CNMI Procurement Regulations state, in part:

Section 1-107 - “No government contract shall be *valid* unless it complies with these regulations.”

Section 3-101 - “All government procurement shall be awarded by *competitive sealed bidding*, except as provided in...” (Note: exception is applicable if another method of procurement is justified, such as sole source, emergency, or expedited procurement).

Section 3-102 (9) (b) - “No acceptance of an offer shall occur nor shall any contract be formed until *a government contract is written and has been approved* by all government officials required by law or regulation.”

The government officials required to sign a contract include the official with expenditure authority as Contracting Officer who shall certify that he has complied with the Procurement Regulations and that the proposed contract is for a public purpose, the Director of Procurement and Supply who shall review the contract for completeness and compliance with the regulations, the Secretary of Finance who shall certify the availability of funds, the Attorney General who shall certify the contract as to form and legal capacity, the Special Assistant for Management and Budget who shall certify that the expenditure was budgeted, and the Governor for approval.

The penalty for violation of the CNMI Procurement Regulations (as provided in Section 6-211) is adverse action against the official or employee. This action includes but is not limited to reprimand, suspension without pay, termination of employment, civil injunction, civil suit for damages or return of government money, or criminal prosecution.

DOLI Renovation Project Did Not Undergo Competition and Contract Certification Procedures

Our audit showed that renovation of the DOLI detention center, which cost \$70,000, was undertaken (1) without competitive sealed bidding, and (2) without the required contract documentation and approvals of designated government officials.

On July 26, 1996, the Secretary of the Department of Labor and Immigration (DOLI), the SAA, and the SAMB accepted and signed a price quotation submitted by a contractor, Double M Limited, for the partitioning and fencing of a newly leased building which would serve as a detention center for CNMI illegal aliens (See **Appendix A**). The Secretary of DOLI signed under the word “conforme,” while the SAMB and the SAA signed under the word “concurred.” Consequently, this quotation which served also as the agreement document between the parties was presented by the Contractor to the Department of Finance (DOF) to claim a down payment on July 31, 1996. On the same day, the Secretary of DOF approved the payment of \$35,000 or 50% of the agreed contract price. According to the Secretary of DOF, he approved the payment upon the verbal request of the SAA. The 50% balance remaining was paid to the Contractor on August 9, 1996 based on the billing concurred in by the SAA and

the SAMB. The Secretary of DOF disavowed knowing about the final payment which was approved by his Deputy Secretary.

According to the Director of Procurement and Supply, his division had no knowledge about this construction project. He further stated that neither the SAA nor DOLI submitted any contract or other documents relative to the renovation and improvement of DOLI's newly leased detention center for his review and evaluation. A letter from the Director of Procurement and Supply certifying that no contract or purchase order was executed on this construction project was received by OPA on October 11, 1996 (See **Appendix B**).

This violation occurred in part because the Secretary of DOLI, the SAA, the SAMB and the Secretary of Finance failed to perform their assigned duties and responsibilities. The Secretary of DOLI and the SAA, as the expenditure authorities, disregarded the required procurement procedures of conducting competitive bidding, contract execution, securing bond requirements and obtaining approvals from appropriate officials for the procurement of DOLI's construction project as required in the Procurement Regulations. The Secretary of Finance authorized and approved the payment for this construction project based merely on the verbal request of the SAA and not based on written approvals and certification from the Director of the Division of Procurement & Supply, the Attorney General, and the Governor and on procurement documents such as a standard CNMI contract as required in the CNMI Procurement Regulations. The Secretary of Finance also failed to verify the availability of funds appropriated for this project. Furthermore, the SAMB accepted the construction agreement and contractor's billing by signing under the word "concurred" without performing his responsibilities of verifying related appropriations for this project.

This noncompliance also occurred in part because of lapses in communication among officials involved in this project and lack of review of the required documents. The SAMB said although he accepted the quotation, he expected that the DOLI administrative officer would follow the Procurement Regulations. Moreover, the Secretary of DOLI said that leasing and renovation of the detention center was handled by the SAA. The Secretary further stated that his office was not paying for the lease of the detention center. Our audit showed, however, that DOLI is indeed paying for the lease, but the cost of the renovation was paid under the budget of the SAA. The SAA said, however, that he thought that the payment for the cost of the renovation came from the budget of the SAMB.

SAA Funds Improperly Used For Renovation of DOLI Detention Center

Our audit showed that funds appropriated for furniture and fixtures of the Special Assistant for Administration were improperly used to pay for the renovation project which had been zero-funded by the Legislature.

Discussion

The following sections of the Commonwealth Code (Planning and Budgeting Act) state in part:

1 CMC §7401 - “No expenditure of Commonwealth funds shall be made *unless the funds are appropriated* in currently effective annual appropriation acts...”

1 CMC §7402 (a) - “Except as provided in this section...no funds may be reprogrammed, and no obligation or contract for the expenditure of funds shall be made for any purposes *other than the public purposes* for which the funds are appropriated.”

1 CMC §7402 (b) - “No funds may be reprogrammed to any account which has been *zero-funded* by the Legislature or to any account for which the Legislature *has not made* an appropriation.”

In addition, as provided under 1 CMC §7701 and §7702, no officer or employee shall willfully or knowingly involve the Commonwealth in any contract or other obligation for the payment of money or authorize any payment in the absence of appropriation for such purpose. Any person who willfully or knowingly commits such violations shall be guilty of a crime, and upon conviction thereof shall be fined not more than \$2,000 or imprisoned not more than two years, or both.

No Authorized Funding

Based on our verification, no funds were appropriated by the Legislature for the renovation of the DOLI detention center. Furthermore, our audit showed that SAA funds appropriated for the furniture and fixtures account amounting to \$70,000 were used to finance the renovation and improvement of DOLI's detention center. It should be noted that existing budget laws prohibit the use of appropriated funds for projects which have been zero-funded.

The SAMB, who was responsible for ensuring that budgeted funds were available, accepted the agreement and contractor's billing by signing under the word "concurrent" without performing his responsibilities of verifying related appropriations for this project. The Secretary of Finance, who was responsible for certifying the availability of funds, approved the payment of \$35,000 or 50% of the contract price upon the verbal request of the SAA. The Secretary explained that he approved the payment because the SAA said that the money paid to the Contractor would in turn be used to pay the Contractor's prior period tax liability to the CNMI Government. This, however, is not a valid reason for granting an advance payment to the Contractor. The Secretary of DOF further said that he assumed the payment was based on a contract and not on an accepted quotation. This shows that the Secretary did not review the documents and verify the availability of funds for the procurement of the renovation project prior to the authorization of payment. The final payment amounting to \$35,000 was approved on August 9, 1996 by the Deputy Secretary of DOF. Apparently, he did not question the contractor's billing because the Secretary had already authorized the initial downpayment.

CNMI Laws and Regulations Were Violated

As a result, (1) the existing safeguards in the CNMI procurement system were overridden by high-level officials in violation of CNMI Procurement Regulations and the Planning and Budgeting Act, and (2) public funds amounting to \$70,000 were spent without competition seeking the lowest cost for the CNMI, and without protection from possible fraudulent transactions. The Secretary of DOL and the SAA, as Contracting Officers, violated the CNMI Procurement Regulations because they failed to comply with competitive sealed bidding procedures and contract certification requirements. The SAA, SAMB and Secretary of Finance violated the Planning and Budgeting Act because they improperly authorized payment for the renovation project for which no funds had been appropriated.

Conclusion and Recommendation

High level officials disregarded existing laws and regulations when they improperly authorized the procurement and payment of the renovation project for the DOLI detention center outside existing government operating policies and procedures. OPA understands the need and priority for this project, but the circumstances that existed did not warrant such noncompliance. The lease contract of the building for the detention center was executed in March 1996. Therefore, there was sufficient time to properly plan for the renovation which could encompass proper budgeting and procurement for the renovation project.

Moreover, in addition to the renovation costs, DOLI also incurred rental cost of \$57,600 from March 1 to December 31, 1996 for the lease of the detention center which was still not operational as of January 10, 1997. The CNMI could have derived more benefit from these costs had the center been used earlier. Accordingly, we recommend that the Governor:

1. Impose appropriate administrative sanctions against the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF, for their failure to properly administer their responsibilities, for disregarding the CNMI Procurement Regulations, and for violating the Planning and Budgeting Act.
2. Issue directives to the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF, informing them of their respective violations and requiring them to perform their assigned duties and responsibilities without exception. The directives should emphasize compliance with CNMI Procurement Regulations and the Planning and Budgeting Act for all future purchases, calling particular attention to the requirements for competitive bidding, execution of contracts or POs, and referral to appropriate officials for review, certification, and approval. In addition, the Governor should:
 - a. Instruct the SAA, who was primarily responsible for negotiating with the contractor and authorizing payment, to review and observe all applicable CNMI laws before expending any funds from his office.
 - b. Instruct the Secretary of DOF to review all payment requests without exception. The practice of accommodating payment requests by high-level officials should be stopped. All requests should go through the procedures required by CNMI laws and regulations.
 - c. Instruct the Special Assistant for Management and Budget to authorize disbursements of government funds pursuant only to the authority of CNMI laws and regulations.

Governor's Office Response

In his letter response dated June 4, 1997, the Governor agreed with our findings (See **Appendix C**). On the same date, the Governor issued memoranda to the SAA, the SAMB, the Secretary of DOLI, and the Secretary of Finance directing them to fully comply with all pertinent CNMI laws, including Procurement & Supply Regulations and the Planning and Budgeting Act, for all current and future contract matters. The memoranda also asked for explanations from the

officials before any administrative sanction (most likely a reprimand) is imposed as recommended in the report (See **Appendix D, E, F & G**).

Office of the Public Auditor Comments

Based on the Governor's letter response and on his memoranda to the respective officials, we consider Recommendation 1 resolved pending receipt of evidence of appropriate administrative sanctions imposed against the SAA, the SAMB, the Secretary of DOLI, and the Secretary of Finance, and Recommendation 2 as closed and implemented. The additional information or action needed to consider Recommendation 1 closed is presented in **Appendix H**.

Appendix A to G

Note: Appendices A to G, which contains the correspondences below, were intentionally omitted to reduce this publication's file size. These appendices are available at the Office of the Public Auditor upon request.

1. Appendix A - Letter of the Director of Procurement and Supply informing the Public Auditor that documents pertaining to the renovation could not be located.
2. Appendix B - Copy of the Contractor's Quotation to the DOLI Secretary.
3. Appendix C to G - Governor's response to the audit findings and his memorandums to the Secretary of Labor and Immigration, Secretary of Finance, Special Assistant for Management and Budget, and Special Assistant for Administration.

STATUS OF RECOMMENDATIONS

| Recommendations | Status | Agency Response/Additional Information or Action Required |
|--|----------|--|
| <p>1. Impose appropriate administrative sanctions against the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF, for their failure to properly administer their responsibilities, for disregarding the CNMI Procurement Regulations, and for violating the Planning and Budgeting Act.</p> | Resolved | <p>In his letter response dated June 4, 1997, the Governor agreed with the findings (See Appendix C) and in his memoranda to the respective officials dated June 4, 1997, the Governor, asked for explanations from the officials and whether these officials agreed with OPA's conclusions before imposing administrative sanctions (most likely a reprimand) (See Appendix D, E, F, & G).</p> <p>OPA Comment</p> <p>The Governor should provide OPA with evidence of administrative sanctions taken against the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF.</p> |
| <p>2. Issue directives to the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF informing them of their respective violations and requiring them to perform their assigned duties and responsibilities without exception. The directives should emphasize compliance with CNMI Procurement Regulations and the Planning and Budgeting Act for all future purchases, calling particular attention to the requirements for competitive bidding, execution of contracts or POs, and referral to appropriate officials for review, certification, and approval.</p> | Closed | <p>On June 4, 1997, the Governor issued memoranda to the SAA, the SAMB, the Secretary of DOLI, and the Secretary of DOF directing them to fully comply with all pertinent CNMI laws including Procurement and Supply Regulations and the Planning and Budgeting Act for all current and future contract matters (See Appendix D, E, F, & G). We also understand that our findings were referred by the Office of the Governor to the Attorney General's Office for further investigation.</p> <p>OPA Comment</p> <p>No additional information or action is required.</p> |